Municipal
Pension Plan

Municipal Pension Plan 2011 Annual Report

January 1, 2011 to December 31, 2011

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Our Story

The Municipal Pension Plan's (Plan) *Annual Report* is our most important publication and we are privileged to have the opportunity to present our 2011 edition. We invite you to take your time reviewing this report, whether you are a member, employer, Plan Partner or an interested third party.

It is our story: the story of one of Canada's largest pension plans and its importance for hundreds of thousands of plan members. It is the story of where we have been, the challenges we face and, importantly, it is a story of our future.

The *Annual Report* outlines our top priorities: provision of pension benefits, indexation of pensions subject to available funds and access to post-retirement group benefits.

Brendan Dick, 2011 Board Chair, presents the Message from the Chair in the Message section.

In our Financial Highlights section, our investment manager, the British Columbia Investment Management Corporation (bcIMC), discusses the Plan's 2011 investment returns and the Plan's investment outlook.

The Municipal Pension Plan is one of 11,744 defined benefit plans in Canada

– source: Statistics Canada, 2010

Through the Who We Are section you will find information about the Plan's administration. Also in this section, Chief Executive Officer and Chief Investment Officer Doug Pearce of bcIMC and British Columbia Pension Corporation Chief Executive Officer Laura Nashman discuss how their organizations support the Plan; there's a summary of Plan Rule and Policy changes in 2011, plus a comprehensive biography of all Trustees and Alternate Trustees—the men and women tasked with responsible stewardship of the Plan. This section also outlines the Board committees, focusing on their responsibilities as well as on their significant actions in 2011. Finally, Trustee remuneration and attendance is detailed.

The Services section provides members with the information they need to make the most of their Plan, told through the life of a fictional plan member. The Story of Sara, through its narrative, provides vital information and guidance to plan members who may find themselves needing assistance throughout their time with the Plan.

From the date she joins, to having children, from sickness to changing employers and through to retirement, the Story of Sara is one member's journey with the Municipal Pension Plan.

Membership numbers, contribution information and an explanation of benefits make up just part of the Plan Details section. This section explains not only how the Plan provides financial stability to its members, but also, in turn, how a strong and growing membership promotes plan sustainability.

Graphs, Tables and Charts presents graphic and tabular information on membership, contribution, employer and financial data.

Our final section, Downloads, rounds out our report. Here you will find links to the printer-friendly version of the report as well as the audited financial statements.

Participate in the Plan: take the time to share your feedback with us. If you are a member or employer, learn how the Plan can work for you and how you can help the Plan thrive; review the Plan documents and the website; attend a seminar or the Annual General Meeting. Be part of your Plan.

Again, thank you for giving us the opportunity to share our story.

Who We Are

Governance

The Municipal Pension Board of Trustees (Board) oversees the governance of the Municipal Pension Plan (Plan), establishes the Plan's investment policy, monitors investment performance, interprets and amends the Plan Rules, and communicates with plan members, employers and other stakeholders.

The Board is responsible for ensuring there is an actuarial valuation at least every three years, that there is an annual financial audit and for reporting on the Plan's actuarial, financial and operational status to the Plan Partners, members and employers.

The Board has established an Appeals Panel to consider appeals by members and others who dispute the way in which the Plan's administrative agent has administered the Plan Rules. See the Appeals Brochure at **mpp.pensionsbc.ca** for more information on the appeals process.

The Board holds at least three meetings per year, with additional meetings arranged when issues arise that require Board attention. Highlights from all Board meetings are posted on the plan website.

The Trustees

The Municipal Pension Board of Trustees (Board) is appointed by the Plan Employer Partners (the Province of British Columbia and the Union of British Columbia Municipalities) and the Plan Member Partner (the Municipal Employees' Pension Committee) as well as by other appointing authorities. This joint governance by members and employers is called joint trusteeship. *The Joint Trust Agreement* can be found on our website.

Brendan Dick (Chair)

Brendan Dick is the director of pensions and benefits for the Hospital Employees' Union, which appointed him to the Board in 2003. He has sat on the Interplan Audit Committee for more than 10 years. He has served as a Canadian Blood Services defined benefit trustee since 2005 and is a past president of the Hospital Employees' Staff Union.

Brendan has completed the Advanced Trustee Management Standards Program, parts 1 to 3, and the Responsible Trustee Program through the Sauder School of Business. Since 2007, Brendan has served three terms as Chair and two terms as Vice-Chair of the Board.

Richard Taylor (Vice Chair)

Richard Taylor is a founding Trustee and was appointed by the Union of British Columbia Municipalities (UBCM) in 2001. He came to the Board through his position as executive director of UBCM, a position he held from 1985 to 2007. Since 2009, Richard has served one term as Chair and two terms as Vice-Chair of the Municipal Pension Board of Trustees.

He has been directly involved in pension matters since 1988, including the original UBCM Advisory Committee, the Superannuation Commission Advisory Committee of the 1990s and as UBCM's representative during the Joint Trust Agreement negotiation. He is also a director and past chair of both Pacific Blue Cross and the BC Pension Corporation Board.

Richard holds a master of science in community and regional planning. He has held public service roles at the local government level for more than 30 years.

Ken Bayne

Ken Bayne recently retired from the City of Vancouver after 24 years in senior roles in the Finance department and four years as general manager, Business Planning and Services with responsibility for Real Estate, Facilities, the 311 Call Centre and for the city's business planning. Ken has been active in the Government Finance Officers Association of BC, including as a member of the organization's pension committee.

Ken was appointed to the Board of Trustees in 2001 by the provincial government and the Union of British Columbia Municipalities and holds a position reserved for non-union members of the Municipal Pension Plan. Between 2003 and 2008, Ken served three terms as Chair and two as Vice-Chair of the Board. He holds a bachelor of arts in political science and a master of science in business administration from the University of British Columbia.

Dennis Blatchford

Dennis Blatchford is the pension and benefits advocate for the Health Sciences Association of BC (HSA) and a founding Trustee of the Board. Before joining the HSA, Dennis was a director for the BC Federation of Labour, working in the areas of health labour relations, human rights and disability advocacy.

The HSA appointed Dennis to the Board of Trustees in 2001. Dennis also served as a Canadian Blood Services defined benefit trustee between 1998 and 2004.

Lucas Corwin

Lucas Corwin is currently Acting Assistant Deputy Minister, Labour Relations, with the Public Sector Employers' Council Secretariat in the Ministry of Finance. His current position is the latest in a number of senior roles within the provincial government.

Prior to joining the provincial government in 2002, Lucas practiced law at Fasken Martineau DuMoulin in Vancouver, where he first became involved in pension issues as a labour and employment lawyer. On joining the provincial government Lucas was appointed to the Teachers' Pension Board of Trustees, moving to the Municipal Pension Board of Trustees in the fall of 2008.

Debra Ducharme

Deb Ducharme is a registered nurse and a long-time activist with the BC Nurses' Union (BCNU). She has been on the BCNU Provincial Council for eight years, originally as regional chair for the Thompson North Okanagan and currently as the provincial executive councillor—pensions. Deb was appointed to the Board by the BCNU in September 2010.

Hugh Finlayson

Hugh Finlayson is a certified human resources professional and the chief executive officer (CEO) of the BC Public School Employers' Association (BCPSEA). In addition to his responsibilities with BCPSEA, Hugh led two other multi-employer associations—the Post Secondary Employers' Association and the Community Social Services Employers' Association (CSSEA), through governance and organizational changes as interim CEO. He was appointed to the CSSEA Board of Directors following its reorganization.

Hugh has been a member of the Board of Trustees since 2006 and is chair of the British Columbia Institute of Technology's Human Resources Management Program Advisory Committee. He is past president of the BC Human Resource Management Association.

Harold Heyming

Harold Heyming served as the vice-chair of the Interior Savings Credit Union, a trustee of the BC Central Pension and Benefit Trust, vice-president and secretary-treasurer of the BC Professional Fire Fighters Association (BCPFFA) and secretary-treasurer of the BC Professional Fire Fighters Burn Fund.

Harold was appointed to the Board of Trustees in 2003 by the BCPFFA and the BC Police Association. He was a 35-year veteran platoon captain for the Kelowna Fire Department before retiring in 2011.

Robert Hobson

Robert Hobson served as a director of the Union of British Columbia Municipalities (UBCM) for 13 years and as president in 2008/09. He has been a member of Kelowna City Council for 24 years and chair of the Regional District of Central Okanagan for the past 19 years. He is chair of the Central Okanagan Regional Hospital District and a trustee of the Municipal Finance Authority.

Robert is a professional planner and administrator who was appointed to the Board of Trustees in 2006 by UBCM. He holds a master of arts in community and regional planning and a master in public administration.

Gary Johnson

Gary Johnson was appointed to the Board of Trustees in 2001 by the Municipal Employees Pension Committee. He retired in 2009 from his position as a national representative for the Canadian Union of Public Employees (CUPE).

Gary has served as chair and vice-chair of the Pension Corporation Board of Directors, the CUPE Employees Pension Plan and was a trustee of the Public Education Benefits Trust. He has extensive training in pension and benefit administration.

Lyn Kocher

Lyn Kocher was appointed as a member of the Municipal Pension Advisory Board in 1999 and was part of the team that negotiated joint trusteeship of the Plan. Lyn has continued to serve on the Board of Trustees since joint trusteeship in 2001 on behalf of the Health Employers Association of BC (HEABC).

Lyn is the chief financial officer and executive director of Corporate Services for HEABC. Lyn has completed the Advanced Trustee Management Standards Program in pension fund leadership and is also a certified general accountant.

Frank Leonard

Frank Leonard is currently chair of the Municipal Finance Authority and has served as president of the Union of British Columbia Municipalities (UBCM). He has been the mayor of Saanich since 1996 and chairs the Saanich Police Board, serves on the Victoria Regional Transit Commission and has chaired the Capital Regional District Board, the Hospital Board and the Housing Corporation Board.

Frank was appointed to the Board of Trustees in 2002 by UBCM, and is on the board of directors for the BC Investment Management Corporation. Frank has a bachelor of arts (honours) and a master of arts from the University of Victoria.

Louise Mercer

Louise Mercer served on the Municipal Pension Advisory Board and helped negotiate the Joint Trust Agreement. She has completed courses in pension administration offered by the Sauder School of Business, the Humber College Trustee Development Program and the International Foundation Canadian Investment Institute, as well as the Advanced Trustee Management Standards Program, part 1.

Louise retired in 2002 from her position as director, corporate affairs, for the Public Sector Employers' Council Secretariat. She was appointed to the Board of Trustees in 2001 by the provincial government, and holds a public sector management diploma from the University of Victoria.

Brian Northam

Brian Northam has served on the executive of the Greater Vancouver Regional District Employees' Union for more than 15 years. He was appointed to the Board of Trustees in 2001 by the Council of Joint Unions and Organizations, previously served on the Municipal Pension Advisory Board and helped negotiate the Joint Trust Agreement.

Brian has completed trustee education courses through Humber College, the Sauder School of Business and the International Foundation Canadian Investment Institute. He is a member of the Association of Canadian Pension Management and works as an electrician with the Metro Vancouver Utilities Division.

Steven Polak

Steven Polak has been a member of the Municipal Pension Advisory Committee since 1980, and helped negotiate the Joint Trust Agreement. He was one of the founding members of the Municipal Pension Retirees' Association, of which he is also president.

He formerly served as a Trustee appointed by the Hospital Employees Union (HEU) before his retirement in 2002, and now by the Municipal Employees Pension Committee (MEPC) in a position reserved for retired members. Steven chaired the MEPC from 1982 until 2002 and has served as a director and provincial executive of the HEU. He was one of the founding directors of the BC Pension Corporation and has done extensive pension administration and trustee training.

Patti Price

Patti Price was appointed to the Board of Trustees in 2006 by the Canadian Union of Public Employees, British Columbia (CUPE BC). Patti was a member of the CUPE BC Pensions Committee before joining the Board. She is a human resources staffing and benefits administrator with the Delta Board of Education, and is responsible for administration for about 900 CUPE support staff workers in her school district.

Mary Procter

Mary Procter is the vice-president of Finance and Planning at Providence Health Care and brings more than 20 years of health care experience to her role as a Trustee. Mary has a bachelor of commerce, a master in leadership and is a certified management accountant. She was appointed to the Board in October of 2009 by the Health Employers Association of BC and is committed to ensuring the long term sustainability of the Plan.

Alternate Trustees

Jeremy Bell

Jeremy was appointed as an Alternate Trustee of the Municipal Pension Board of Trustees effective January 1, 2011. He was appointed by the Plan Employer Partner.

Jeremy is an actuary with the Healthcare Benefit Trust (HBT). He is responsible for establishing reserves, setting rates and investing assets related to non-pension benefits for employees in the health care and social service sectors. Prior to joining HBT, Jeremy spent 10 years at national consulting firms consulting to boards, committees and sponsors on pension and investment issues. Jeremy is a fellow of the Canadian Institute of Actuaries and is a chartered financial analyst charterholder. He is active in the Canadian Institute of Actuaries on the Group Insurance and Post Employment Benefit committees. He is an external member of the Alberta Public Service Pension Plan Investment Committee.

Donisa Bernardo

Donisa Bernardo has been the financial secretary for the Hospital Employees Union (HEU) since 2006. The Municipal Employees Pension Committee appointed her to the Board of Trustees in 2001 as an Alternate Trustee. Donisa has worked as a pharmacy technician at Royal Inland Hospital since 1984, and has been involved with the HEU since 1989.

Bella Brown

Bella Brown is a former paediatric nurse with more than 25 years' experience. A labour relations officer with the British Columbia Nurses' Union (BCNU) since 2006, Bella advocates for pension compensation when resolving collective agreement issues that have impacted members' pension benefits.

Bella holds an executive master in business administration in healthcare from the Sauder School of Business at the University of British Columbia. The BCNU appointed Bella to the Board as an Alternate Trustee in 2011.

Patrick Doyle

Patrick Doyle was the chief human resources officer for the Interior Health Authority until his retirement in the spring of 2009. He was appointed to the Board of Trustees in 2004 by the Health Employers Association of British Columbia.

Patrick has more than 30 years' experience in human resources in both the private and public sectors. In addition, he is currently board chair for the Kelowna Community Food Bank, was an original board member of the Occupational Health & Safety Agency for Healthcare in BC and is a former board member for the Kelowna Chamber of Commerce. Patrick holds a master of science, career and human resource development and is a member of the Institute of Corporate Directors.

Judi Filion

Judi Filion was the treasurer of the BC Government and Service Employees' Union from June 2005 to June 2011. She was appointed an Alternate Trustee on January 1, 2011. Her appointment to the Board is through the Council of Joint Organizations and Unions. Judi has completed courses with the International Foundation of Employee Benefit Plans and the Advanced Trustee Management Standards Program.

Terry Killough

Terry Killough worked in financial, business and human resources management in the public school system for 32 years, and retired as secretary-treasurer of the Okanagan Similkameen School District in 2007. He was appointed to the Municipal Pension Board by the BC Public School Employers' Association in 2001. Terry holds a bachelor of science in mathematics and is a retired certified general accountant.

Kelly Knox

Kelly Knox is the senior Trustee-elect for the Hospital Employees' Union (HEU), and is currently working as a catheterization laboratory aide. Kelly was first appointed to the Board of Trustees by the HEU in 2003.

Fran Macdonnell

Fran Macdonnell has been a Trustee since 2001, and served on the Municipal Pension Advisory Committee that helped negotiate the Joint Trust Agreement. Fran was appointed originally by the British Columbia Nurses' Union (BCNU), and now by the Municipal Employees' Pension Committee in a position reserved for retired members. She was a registered nurse working in the obstetrical unit in Kelowna until she retired in 2004.

Fran has also served as a council member on the board of directors for the BCNU and as regional chair for the Okanagan-Similkameen region of the BCNU.

Rebecca Maurer

Rebecca Maurer was appointed as an Alternate Trustee in October 2011 by the Health Sciences Association of British Columbia (HSABC) where she is director of Human Resources and Operations. Prior to holding that position Rebecca was HSABC's director of Strategic Communications and Member Development.

Rebecca brings significant governance experience to the Board of Trustees. She has been a member of various boards, including those of Langara College, the Canadian Breast Cancer Foundation—British Columbia/Yukon Region and the Planned Parenthood Association of British Columbia. Rebecca currently serves on the boards of the New Westminster Police Department and Partners in the Horn of Africa.

Marno McInnes

Marno McInnes is the vice president of Strategic Negotiations and Contract Administration for the Health Employers Association of British Columbia (HEABC). He was appointed to the Board of Trustees by the HEABC in December 2010.

Marno holds a master in business administration from Simon Fraser University and brings 25 years of labour relations expertise and substantial health sector negotiation experience to his role as Trustee.

Angie Sorrell

Angie Sorrell is the executive director, Pensions for the Public Sector Employers' Council Secretariat, involved with the four public sector pension plans, and the Canada Pension Plan. Angie was a senior advisor to the Provincial Treasury Board prior to her current position.

She holds a master degree and has completed the Advanced Trustee Management Standards Program. Her training and work has revolved around budget, fiscal and economic analysis, and is now focused on pension issues. Angie was appointed to the Board of Trustees in February 2008 by the provincial government.

Todd Sweet

Todd Sweet has served on the executive board of the New Westminster Police Officers' Association for 12 years, including two years as treasurer and 10 as president. Todd has also served for four years as a trustee with the BC Police Association (BCPA).

In those capacities, Todd has been involved in collective bargaining, grievances and lobbying the federal and provincial governments for changes to legislation and public safety issues. He has been a police officer for 22 years. Todd was appointed to the Board of Trustees in 2005 by the BCPA.

Colleen Wiens

Colleen Wiens is a payroll/accounts payable clerk with School District 67 (Okanagan Skaha), and was appointed to the board in January 2009 by the Canadian Union of Public Employees.

Colleen has worked with the school district for more than 20 years, holds a business administration diploma with an accounting option and has completed the Canadian Payroll Association Manager course.

Hilary Woodward

Hilary Woodward is the chief financial officer and executive director of Financial and Corporate Services at the provincial Ministry of Health. She is also a chartered accountant. Hilary was appointed to the Board in 2011.

Agents and Service Providers

The Municipal Pension Board of Trustees (Board) is responsible for governing the Pension Plan and providing direction to the Plan's administrative agent (British Columbia Pension Corporation) and the Plan's investment agent (British Columbia Investment Management Corporation). The Board also receives external legal, audit and actuarial support.

There are more than 19,000 pension plans in Canada; public sector plans like the Municipal Pension Plan make up less than 10 per cent of these plans.

– source: Statistics Canada, 2010

The **British Columbia Investment Management Corporation** is one of Canada's largest investment managers. It administers $91.8 billion across all major asset classes, with global exposure.

The **British Columbia Pension Corporation** is among Canada's largest pension administrators, annually collecting more than $2.5 billion in contributions and paying $2.8 billion in benefits. It provides plan information to members and employers, manages contributions and member records, pays pension benefits and provides policy, financial and communications services to the Board.

Eckler Ltd. serves as the actuary for the Municipal Pension Plan (Plan). The actuary conducts an actuarial valuation on the Plan's funding every three years and supports the Board of Trustees in their decision-making as appropriate. The next valuation will be presented to the Board in the fall of 2013.

PriceWaterhouseCoopers LLP provides external audit services for the Plan.

Davis LLP is the legal counsel for the Plan.

Board Committees

The Municipal Pension Board of Trustees has several committees that make recommendations to the Board on a wide variety of issues affecting the Plan.

Appeals Panel

The Appeals Panel was established in accordance with the Joint Trust Agreement and has full jurisdiction to consider and decide all appeals. Its role is to determine whether the Plan's administrative agent applied the Plan Rules correctly; the Panel does not have the authority to change the Plan Rules. In 2011, the Panel did not meet.

The Panel posts decisions issued on the plan website, with all information that could identify an individual removed from the written decision.

Benefits

This committee reviews the Plan Rules and makes recommendations for changes as required. It monitors and reports to the Board on projected non-guaranteed post-retirement group benefits costs and makes recommendations annually for extended health and dental premium rates and subsidies. The committee also reviews the post-retirement group benefit rules and makes recommendations for changes to plan design, coverage levels and cost structure as required. This committee met four times in 2011.

In 2011, the Benefits Committee:

- completed the review of the post-retirement group benefits program and recommended access to eClaim, a number of additions to coverage and the requirement for individuals covered by the Municipal Extended Health Benefit (EHB) policies to apply to Pharmacare for Special Authority for eligible drugs (submission of the Pharmacare approval/denial letter to Pacific Blue Cross being a condition for reimbursement, effective July 1, 2012),
- approved 16 new employers, including 10 Group 5 employers,
- introduced a Service Performance Agreement with Pacific Blue Cross,
- took on responsibilities previously assigned to the Employer Eligibility Committee, which will be discontinued once it completes a number of legacy policy development initiatives,
- reviewed and updated its terms of reference,
- reviewed and recommended updated premium rates for EHB and Dental coverage,
- reviewed and recommended a cost-of-living adjustment of 3.2 per cent, effective January 1, 2012,
- approved the use of the public Special Agreement calculator,
- recommended applying a "Separate Member Approach" for members working in multiple pension categories (normal retirement age 65 and normal retirement age 60), and
- recommended amending the Plan Rules and group disability plan approval criteria to clarify that if a previously approved long term disability (LTD) plan becomes non-compliant, members who started to receive a benefit from the LTD plan before it lost its approved status will continue to be credited with deemed service; similar changes were made to provide for continued credit of deemed service in the case of members who have applied for and are entitled to receive a benefit from an approved long-term disability plan if their employer ceases to participate in the Plan.

Communications & Education

The Board is committed to providing excellent communications to stakeholders, employers and plan members. The Communications & Education Committee supports that commitment by providing communications policy and strategy. It also organizes Trustee orientation, education and learning initiatives. The committee coordinates the Employer and Union Forum and Annual General Meeting, reviews plan communications materials and has delegated authority from the Board to approve certain communications materials.

This committee met six times in 2011. The committee:

- coordinated the Annual General Meeting (AGM) held in Burnaby, October 12, 2011,
- initiated the Employer and Union Forum, held in conjunction with the AGM,
- coordinated the *2010 Municipal Pension Plan Annual Report*, *2010 Municipal Pension Plan Report to Members* and two issues of *After Work*,
- consolidated three policies into the Trustee Orientation, Mentoring and Education Policy and updated the consolidated policy,
- developed the Access to Plan Communications and Publications Policy, and
- reviewed and updated its terms of reference.

Employer Eligibility

This committee reviews and makes recommendations to the Board about the criteria for employer eligibility to join the Plan. When an employer wants to join the Plan, this committee reviews the application to make sure the employer meets the eligibility criteria for the Plan. The committee met five times in 2011 and recommended approval of seven employer applications, including four applications from employers in the Community Social Services sector.

In addition, the committee:

- developed the Termination and Modification of Employer Participation Policy, and
- recommended Board approval of applications by three employers to modify their participation in the Plan in respect of a specified employee group (these employers now have fewer employees participating in the Plan), in accordance with the new policy.

Governance

This committee ensures the Board has up-to-date governance policies and procedures in areas including confidentiality, conflict of interest, Trustee performance and self-assessment, risk management and strategic planning. It also monitors contracts and service agreements with major service providers and coordinates nominations for chair, vice-chair, the Appeals Panel and all Board committees. The committee met five times in 2011.

In 2011, the committee:

- developed a Strategic Decision Framework to guide the Board and its committees in anticipating and addressing issues facing the Plan, and
- reviewed and updated a number of Board policies, including the Committee Meeting Procedures, Terms of Reference for the Board Chair and Vice-Chair, Trustee Remuneration Policy, Trustee Travel & Business Expense Policy and Board Governance Assessment Survey instruments, and coordinated a Board governance self-assessment and performance review of service providers.

Investment

This committee reviews and makes recommendations to the Board about its Statement of Investment Policies and Procedures, which sets the overall direction for the Plan's investments. It also coordinates periodic asset allocation studies and makes recommendations on investments. The committee met four times in 2011.

In 2011, the committee:

- reviewed and revised the Statement of Investment Policies and Procedures,
- reviewed and revised approved investments and benchmarks,
- commenced an asset liability study to align the Plan's investment strategy with its objectives, obligations and risk tolerance,
- PRI completed the annual Principles for Responsible Investment (PRI) survey as an asset owner; results of the 2010 PRI survey show that the Municipal Pension Plan is among the top performing asset owners globally for the majority of principles, and
- wrote to the Chair of the Ontario Securities Commission urging that Canadian securities law be amended where necessary to ensure all shareholders can have their voices heard in a democratic and effective way; specifically, the Board supports three key changes:
  1. prohibition of slate voting (where shareholders are only able to vote for a whole board of directors rather than directors on an individual basis);
  2. requirement for "say on pay" advisory votes (giving shareholders the ability to participate in a non-binding vote for or against executive compensation policy and practices); and
  3. requirement for detailed confirmation to shareholders of vote instructions (confirming that a shareholder's vote instructions were received and applied as instructed).

Valuation

This committee develops, reviews and recommends revisions to the Municipal Pension Board of Trustees' Funding Policy. The committee works with the plan actuary to coordinate setting assumptions for actuarial valuations, reviews the valuation results and determines changes to contribution rates, if required. Actuarial valuation is one of the key components for ensuring the financial health of the Plan. The committee met twice in 2011.

In 2011, the committee:

- reviewed the employer contribution rate structure and wrote to Plan Partners in support of establishing a combined employer contribution rate for Groups 1 and 4 (membership in the Plan is divided into separate benefit groups, each with its own accrual rates and/or earliest retirement ages), and eliminating the practice of doubling (the practice of employer contribution rates increasing for plan members five years ahead of their earliest retirement age),
- updated the actuarial factors and options tables to reflect the actuarial valuation as at December 31, 2009 (updates effective January 1, 2012), and
- renewed the actuarial services agreement with Eckler Ltd. for a three-year period from January 1, 2012, to December 31, 2014.

Interplan Audit

The Municipal Pension Board of Trustees participates in the Interplan Audit Committee. The mandate of the Interplan Audit Committee is to act on behalf of, and to provide assistance to, the plan boards for:

- a timely and cost-effective system of accounting and reporting,
- financial statements conforming with generally accepted accounting principles,
- an independent audit of the financial statements, and
- an annual report with audited financial statements.

The committee accomplishes its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of financial reporting, internal controls and compliance,
- monitoring and reporting on the independence and performance of the auditors,
- monitoring and reporting on risk management as it affects financial reporting;
- recommending the selection and compensation of external auditors, and
- addressing any matter referred to the committee by one or more of the four boards.

Membership in the committee includes two nominees from each of the boards of the College, Municipal, Public Service and Teachers' pension plans. All nominees must be ratified by all the boards. The committee must include at least two trustees who understand generally accepted accounting principles, internal controls and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

In 2011, the committee met four times.

Other Interplan Committees

The Board also participates in the Trustee Education Committee, the Interplan Member's Benefit Statement Committee and the Executive Forum.

Trustee Remuneration and Attendance

for the year ended December 31, 2011

Board Member	# Meeting days attended/ possible[1]	Total remuneration[2]		Paid to
Brendan Dick	24/26	28,341.00	$6,804.00	Brendan Dick
			21,537.00	Hospital Employees' Union
Richard Taylor	17/20	16,989.75	21,849.75	Richard Taylor
Kenneth Bayne	16.5/19	4,860.00	4,860.00	City of Vancouver
Jeremy Bell**	8/12	4,536.00	1,944.00	Jeremy Bell
			2,592.00	Healthcare Benefit Trust
Donisa Bernardo	7/7	5,670.00	5,670.00	Hospital Employees' Union
Dennis Blatchford	12.5/16	5,022.00	972.00	Dennis Blatchford
			4,050.00	Health Sciences Association of BC
Jessica Bowering Resigned September 29, 2011	4/4	3,564.00	3,564.00	Health Sciences Association of BC
Bella Brown	9/9	4,860.00	1,458.00	Bella Brown
			3,402.00	BC Nurses' Union
Lucas Corwin**	11/12	3,888.00	3,888.00	Public Sector Employers' Council Secretariat
Pat Doyle	11/20	10,507.50	10,507.50	Pat Doyle
Deb Ducharme**	10/10	11,322.00	11,322.00	BC Nurses Union

Board Member	# Meeting days attended/ possible[1]	Total remuneration[2]		Paid to
Judi Filion**	8/8	5,022.00	2,592.00	Judi Filion
			2,430.00	BCGEU
Hugh Finlayson	10/16	—	—	—
Harold Heyming	19/20	16,752.00	16,752.00	BCPFFA
Robert Hobson**	19/21	14,559.00	14,559.00	Robert Hobson
Gary Johnson**	18/18	13,683.00	13,683.00	Gary Johnson
Terry Killough	14/15	14,328.75	14,328.75	Terry Killough
Kelly Knox	8/11	4,374.00	4,374.00	Hospital Employees' Union
Lyn Kocher**	15/16	5,508.00	5,508.00	Health Employers Association of BC
Frank Leonard	14.5/19	5,832.00	5,832.00	Frank Leonard
Fran Macdonnell**	14/16	9,465.00	9,465.00	Fran Macdonnell
Rebecca Maurer Appointed October 11, 2011	2/2	810.00	810.00	Health Sciences Association of BC
Marno McInnes	7/9	2,106.00	2,106.00	Health Employers Association of BC
Louise Mercer	14/17	9,213.00	9,213.00	Louise Mercer
Brian Northam	19/19	16,597.50	16,597.50	Brian Northam
Steven Polak	20/21	11,656.50	11,656.50	Steven Polak
Patti Price	19/23	15,304.50	5,263.50	Patti Price
			10,041.00	CUPE BC Division
Mary Procter	6/7	5,022.00	5,022.00	Providence Health Care
Sharon Saunders Resigned February 14, 2011	1/1	—	—	—
Angie Sorrell**	18/18	9,882.00	9,882.00	Public Sector Employers' Council Secretariat
Todd Sweet	15/15	10,917.00	10,917.00	Todd Sweet
Sheila Taylor Resigned April 18, 2011	0/2	—	—	—
Colleen Wiens**	10/10	6,318.00	2,430.00	Colleen Wiens
			3,888.00	CUPE BC
Hilary Woodward	6/7	2,430.00	2,430.00	Ministry of Health

Average attendance 87%

[1] The first figure in this column is the number of meeting days (some meetings carry over multiple days) the Trustee attended. The second figure is the number of meeting days scheduled by the Board and by the committees of which the Trustee is a member and could have attended.

[2] Includes attendance at Trustee education events, preparation time for Board and committee meetings and travel time to and from meetings.

The Board's Committee Membership & Appointments Policy permits the Board Chair and Vice Chair to attend the meetings of all committees. The Board Chair attended nine additional meetings. The Vice Chair attended 12 additional meetings. These additional meetings are not included in the listing above.

* Includes Board Chair stipend of $6,480.00 and Vice Chair annual stipend of $4,860.00.

** The following Trustees also attended additional meetings: Jeremy Bell (1), Lucas Corwin (1), Deb Ducharme (1), Judi Filion (1), Robert Hobson (1), Gary Johnson (2), Lyn Kocher (1), Fran Macdonnell (1), Angie Sorrell (.5), Colleen Wiens (.5)

Financial Highlights

The Municipal Pension Board of Trustees (Board) is responsible for overseeing an investment portfolio of approximately $28.0 billion for the benefit of Municipal Pension Plan (Plan) members. The Board's primary financial objective is to ensure the long-term sustainability of the Plan which, along with other factors, depends on earning sufficient investment returns over a longer time horizon.

The Board's investment strategy and overall framework for the management of the Plan's assets is outlined in the Statement of Investment Policies and Procedures. The Board approves the long-term asset mix policy recognizing that diversification of investments is a key principle in managing risk. Investments are held in a range of asset types (e.g., bonds, equities, real estate, private placements), across industry sectors and global markets. The Board oversees the management of the Plan's assets through the Board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

If you're thinking about mortgages, low rates are wonderful; for pension plans, higher interest rates are positive news.

The investment environment during 2011 was challenging. The Plan's investment portfolio earned

Five-Year Financial Summary ($ Thousands)

for the year ended December 31

	2011	2010	2009	2008	2007
Increase (Decrease) in Assets					
Investment income (loss)	$ 923,695	$ 2,425,150	$ 2,395,704	$ (3,091,956)	$ 1,084,547
Contributions					
Members	651,823	591,731	568,122	513,165	496,994
Employers	754,740	687,358	656,180	595,510	566,325
Transfers from other Plans	21,952	13,897	20,204	19,051	49,502
Total Increase (Decrease) in Assets	2,352,210	3,718,136	3,640,210	(1,964,230)	2,197,368
Decrease in Assets					
Pension Benefits	1,041,678	964,825	909,348	833,763	762,493
Termination and Refund Benefits	145,355	92,421	90,887	91,629	79,048
Transfers to Other Plans	18,688	16,726	17,515	18,837	45,130
Retired Member Group Benefits	59,369	56,686	53,720	48,009	52,983
Investment and administration Costs*	67,582	60,225	51,777	49,467	55,453
Total Decrease in Assets	1,332,672	1,190,883	1,123,247	1,041,705	995,107
Increase (Decrease) in Net Assets	1,019,538	2,527,253	2,516,963	(3,005,935)	1,202,261
Net Assets Available for Benefits at Beginning of Year	27,017,002	24,489,749	21,972,786	24,978,721	23,776,460
Net Assets Available for Benefits at End of Year	$28,036,540	$27,017,002	$24,489,749	$21,972,786	$24,978,721
Investment and Administration Costs as a Percentage of Net Assets*					
Investment Management*	0.20%	0.17%	0.16%	0.19%	0.24%
Benefits Administation	0.09%	0.09%	0.10%	0.10%	0.08%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of $14.0 million (2010 – $12.0 million; 2009 – $10.3 million; 2008 – $13.0 million; 2007 – $23.9 million) reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets.

Market Value Rates of Return

for the year ended December 31

	Market Value Rates of Return* (%)	Performance Benchmark Return (%)	
Annual Rates*			
2011	**3.3**	**1.6**	
2010	9.8	8.8	
2009	10.8	13.3	
2008	(12.4)	(10.1)	
2007	4.4	2.5	
Five-Year Annualized Rates			
2011	**2.8**	**2.9**	
2010	5.1	5.0	
Ten-Year Annualized Rates			
2011	**5.7**	**5.5**	
2010	5.1	5.0	
2011 Annual Rate by Investment Category			
Short-term			
Money Market	1.2	1.0	DEX T-Bill 91 day
Bonds	4.6	4.6	DEX ShortTerm Government Bond Index
Bonds			
Universe Bonds	9.9	9.7	DEX Universe Bond Index
Real return Bonds	17.9	18.3	DEX Real Return Bond Overall Index
Global Government Bonds	7.3	7.2	JP Morgan Hedged
Mortagages			
Fixed-term	7.3	5.7	DEX ST Bonds + 1%
Construction	4.7	2.9	DEX 1 Year T-Bills + 1%
Mezzanine	(2.8)	4.5	DEX 1 Year T-Bills + 2.5%
Canadian Equities			
Active	(7.9)	(9.6)	S&P/TSX Equity
Active Small Cap	(8.0)	(19.8)	S&P/TSX Small Cap
Indexed	(9.2)	(9.6)	S&P TSX Equity
Enhanced	(9.2)	(9.6)	S&P/TSX Capped Equity
Global Developed Equities			
Global Active	(7.7)	(2.9)	MSCI World ex-Canada Net
US Active	(2.1)	4.0	Russell 1000
US Small Cap	(1.3)	(1.8)	Russell 2000
US Indexed	4.7	4.6	S&P 500 Total Return Index
US Social Indexed	4.0	4.1	MSCI KLD 400 Social Index
US Enhanced	4.7	4.6	Russell 1000/S&P 500
Asian Indexed*	(11.5)	(11.6)	MSCI Pacific Net
Asian Active	(14.7)	(13.5)	MSCI Asia Pacific ex-Japan Net
Europe	(9.4)	(8.9)	MSCI Europe Net Index
Europe, Australia and the Far East	(9.4)	(10.0)	MSCI EAFE Net Index
Emerging Markets			
Emerging Markets	(15.6)	(16.4)	MSCI Emerging Markets Net Index
Domestic Real Estate	14.9	6.3	CPI + 4%

[a] Beginning January 1, 2010, bcIMC merged the inflation adjustment portfolio and the basic portfolio into one. All returns prior to January 1, 2010, are for the basic portfolio only.

an annual return of 3.3 per cent for the year ending December 31, 2011. The market value of investments increased from $27.3 billion as at December 31, 2010, to $28.0 billion as at December 31, 2011.

Disappointing economic conditions combined with natural disasters in Japan, political turmoil in the Middle East and the continued escalation of the European debt crisis caused extreme volatility in equity markets, particularly in the latter half of 2011. Stock markets tumbled sharply in August following the downgrade of U.S. sovereign debt, and fears about contagion of the European debt crisis intensified. As a result, the Plan's combined equity investments posted an annual return of -6.6 per cent for the year. In contrast, the Plan's combined fixed income investments performed strongly, returning 10.5 per cent for the year, as investors flocked to the safety of bonds. The strong performance of the Plan's domestic real estate investments, gaining 14.9 per cent, also contributed to the overall returns.

Responsible investing continues to play an important role in the management of the Plan's assets. This philosophy is based on the belief that well-governed companies that are responsive to environmental and social issues will positively affect investment performance of the Plan over the longer term. For example, both the Board and bcIMC are signatories to the Principles for Responsible Investment (PRI). The most recent survey for the PRI shows that the Board and bcIMC rank among the top performing investment owners and investment managers globally in the implementation of the PRI. Plan members can learn more about bcIMC's responsible investment activities by reviewing bcIMC's website: **www.bcimc.com/ResponsibleInvesting**.

Managing investment costs is also important to the Board and bcIMC's fees continue to be significantly below those of other investment managers. This is because bcIMC operates on a cost recovery, not-for-profit basis and its large asset size provides access to substantial economies of scale. By carefully managing the Plan's investment management expenses, a greater proportion of investment return will pass through to the Plan, contributing to its long-term sustainability.

Investment Outlook

- To the end of March 2012 we saw some positive developments in capital markets and the global economy overall.
- Economic conditions in the U.S. and the once buoyant economies of China, Brazil and India have slowed considerably.
- Europe has increasing fears of additional countries like Spain and Portugal needing bailouts. Fiscal austerity programs will further restrain European economic growth in the near term.
- The volatile market environment we have seen for several years now is expected to continue through 2012.

The Plan has a long-term investment horizon, and is able to withstand short-term volatility. The Board and bcIMC will continue to follow a disciplined, long-term approach to managing the Plan's investments, with the objective of long-term sustainability.

Message from Brendan Dick, 2011 Chair of the Municipal Pension Board of Trustees

In 2011 the Municipal Pension Plan celebrated 10 years of joint trusteeship. The Joint Trust Agreement established in 2001 entrusted responsibility for managing the Plan to a Board appointed by both employer and employee organizations, instead of being under the direction of the government-appointed Superintendent of Pensions. In simple terms, we are now all in this together.

Our first decade has been both rewarding and very challenging for this new Board. The ink was still drying on the agreement when we experienced the dot-com bust, which was followed closely by the events of September 11, 2001. The middle part of the decade brought sizable investment returns, but all this came crashing to a halt with the credit crunch of 2008. Notwithstanding all these setbacks, the Plan grew and the funding position remained relatively stable but, more importantly, the new governance structure ensured that what needed to be done to ensure Municipal Pension Plan viability, would be done. So, exiting the worst downturn since the Great Depression, the Plan is still well funded and contributions paid today will ensure that the Plan can meet its promises to members in the future.

More than 4.5 million Canadians are members of a defined benefit pension plan, including those in the Municipal Pension Plan.

For 2011, the return on our investments was a modest 3.3 per cent, outpacing inflation, but below the target set by the Board. The uncertainty in the Eurozone was the major factor driving capital markets downward. In response to this, as well as other factors, the Board embarked on a review of our current asset allocation, with the goal of improving performance. This project will be completed in 2012 and we will provide a full report upon its completion. We also completed a multi-year review of post-retirement group benefits for retirees. This program, which provides partial subsidies but is not guaranteed, compares fairly well with standard plans. We made modest changes but overall the status quo will be maintained for these programs.

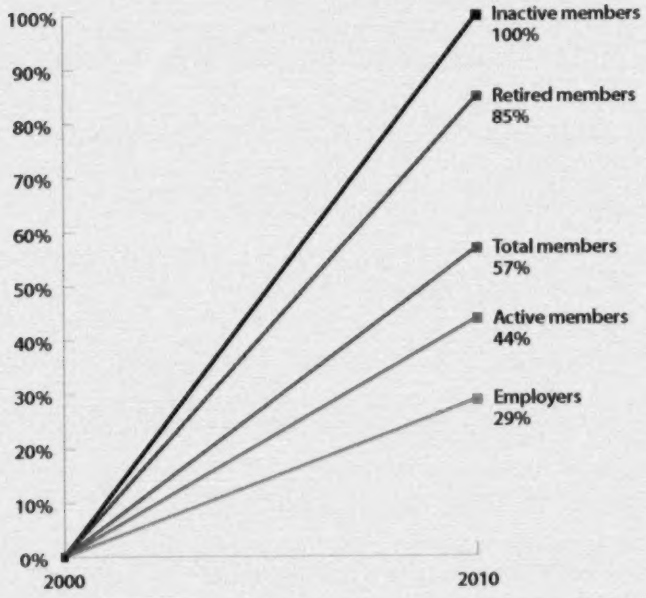
Also in 2011 the Board adopted a Strategic Decision Framework, which contained a simple vision: "to provide secure and valuable pension benefits for beneficiaries of the Plan." In addition we laid out our mission: "to provide prudent management of the Municipal Pension Plan in a framework where plan members and employers share the responsibility of plan governance and share the risks and rewards of plan sponsorship." The framework will guide us as we translate that vision and mission into action. I encourage you to visit the Plan's website to learn more about our Strategic Decision Framework.

This past year a great deal of press coverage about defined benefit pension plans was quite negative, and the viability of plans like the MPP was being openly questioned. There is no question that poor investment returns like we have seen in the past several years makes any retirement savings arrangement very tough. In 2011, each of our active members and employers experienced a contribution rate increase that was a direct result of those poor returns, both from past results as well as the Board's expectation for returns in the future. But it is precisely this proactive response to these events, and our rethinking of the future, that will ensure the Plan's long-term sustainability.

Finally, as part of this 10-year anniversary of joint trusteeship I wish to recognize all the past and present members of the Municipal Pension Board of Trustees for their part in ensuring the long term success of the Municipal Pension Plan. We are a large Board and many people have come and gone, but each in their own time has added to our collective success.

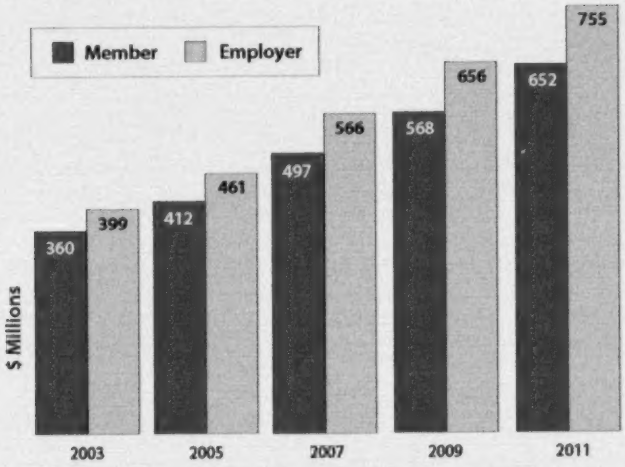
Growth Rates

for the period December 31, 2000, to December 31, 2010

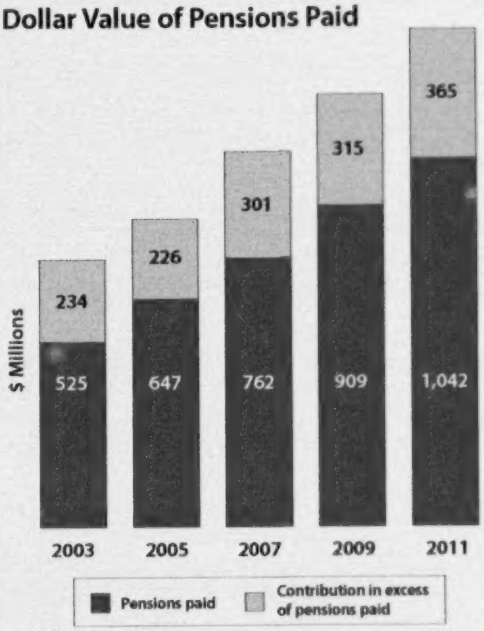


Member and Employer Contributions

year ended December 31



Dollar Value of Pensions Paid



Services

The Story of Sara

The Municipal Pension Plan actively serves its members through their working career and beyond. The Story of Sara illustrates the way one fictional Municipal Pension Plan member takes advantage of that service.

Sara joins the Plan

Sara is 27 years old when she takes a position with a plan employer in the Lower Mainland. She receives a Welcome to the Plan package that includes all the information new members such as Sara need. To enhance her knowledge of the Plan, Sara attends a Your Pension, Your Future seminar and she reads the *Guide for Plan Members.*

The following June, Sara receives her first *Member's Benefit Statement* (MBS). The MBS provides a record of Sara's service and contributions. As long as she remains employed, Sara receives the MBS every year until retirement.

The MBS provides Sara the information she needs to log onto the My Account portal on the plan website. My Account allows Sara to view her personal information, her service and salary information, a digital version of her MBS and her pension estimator.

Sara also reviews previous years' Annual Reports and Reports to Members, posted on **mpp.pensionsbc.ca**. After completing her reading, Sara has accumulated plenty of knowledge about her role, responsibilities and entitlement as a Municipal Pension Plan member.

Sara attends the Municipal Pension Plan's Annual General Meeting. She has the opportunity to meet the Trustees and ask questions of the Plan's key service providers, all of whom have information booths at the meeting.

Vesting

At 29, Sara has accrued two years of service and is vested in the Plan. This means she is entitled to a pension benefit with the Plan and that Sara is guaranteed a retirement income. In addition, pension estimates will now appear on her annual MBS.

Welcoming children

At 30, Sara and her husband welcome their first child and Sara stays home on parental leave for six months. Because she doesn't contribute to her pension during her leave of absence, upon her return to work Sara decides to apply to purchase her service. She finds plenty of great information about this in the *Purchasing leaves of absence* PensionFacts. She also calls the Municipal Pension Plan and talks directly with a client services representative who is able to answer her additional questions. Sara determines it is in her interest to purchase the service as her employer will pay approximately half the cost.

At 33, Sara and her husband welcome their second child. Sara stays home on parental leave for 10 months and again purchases her service, with her employer paying approximately half the cost, on her return to active employment.

Transferring to a different plan—and back again

At 40, Sara is offered a position in the provincial government. Because provincial government employees are part of the Public Service Pension Plan, Sara would not be able to contribute to the Municipal Pension Plan while with her new employer.

Before making the move, Sara consults the *Transferring service* PensionFacts. In addition, she visits the Municipal Pension Plan's office in Victoria where she has a personal meeting with a client services representative of the Plan.

Sara learns that because the Municipal Pension Plan has a transfer agreement with the Public Service Pension Plan as well as other plans across BC and Canada, Sara can transfer her service with the Municipal Pension Plan to the Public Service Pension Plan.

At age 43, Sara returns to a Municipal Pension Plan employer and again, Sara has the ability to transfer her service between the two plans.

Marital breakdown

At 45, Sara and her husband separate and divorce. Sara and her spouse must decide how to divide her pension. Sara consults the *How a separation or divorce affects your pension* PensionsFacts. She also consults a lawyer, and subsequently files a copy of her separation agreement with the Plan, enabling it to divide her pension at source for the couple in accordance with the agreement.

Long-term health difficulties

At 47, due to long-term health issues, Sara is forced to go on long-term disability (LTD). Because her employer's LTD plan has been approved by the Municipal Pension Plan for pension purposes, Sara continues to accumulate service during her convalescence without further contributions. Sara consults the *Long-term disability benefits* PensionFacts for information.

An inheritance arrives

Two years after returning to work at age 50, Sara receives an inheritance. Before deciding whether to contribute a portion of her inheritance to her registered retirement savings plan (RRSP), she consults the *Your pension and your RRSP room* PensionFacts and learns that since she is already contributing to a pension plan, which is a tax-deferred retirement benefit, the amount she can contribute to an RRSP is reduced and she contacts Canada Revenue Agency to find out how much of her inheritance she can put into an RRSP.

60 and ready to retire

The Near Retirement section at **mpp.pensionsbc.ca** is Sara's first stop. It includes information, publications, forms and other resources for plan members approaching retirement. Sara also attends the *Thinking About Retiring* seminar offered by the Plan. At the seminar, Sara consults with a pension instructor who helps her understand the various pension options available to her. She also learns how to compare her pre- and post-retirement income and expenses to determine if she can afford to retire. Finally, Sara receives all the information she needs to complete her retirement application.

A few months later, Sara retires after more than 30 years of working for Municipal Pension Plan employers and a short period of time with the Public Service Pension Plan. Sara has a pension and the satisfaction of knowing that her career-long contributions to the Plan will provide her with a guaranteed source of income for the rest of her life.

Sara enjoys her retirement

At retirement, Sara receives a *Welcome to Retirement* booklet, a handy guide that gives Sara the information she needs to enter her retirement years with confidence and knowledge.

Sara begins to receive her monthly pension payments. In addition, she opts into the Plan's group health benefits and dental program. She also receives cost-of-living increases when granted by the Municipal Pension Board of Trustees, though she is aware both the cost-of-living increases and the group benefit coverage are not guaranteed by the Plan.

In retirement, Sara receives the semi-annual *After Work* newsletter, which provides retired members with all sorts of information and updates on extended health benefits, cost-of-living adjustments and other important subjects.

Sara keeps the Plan up to date with her contact information throughout her retirement years and notifies the Plan when her son is designated her power of attorney. Keeping contact information up to date is important as it allows the Plan to provide relevant and up-to-date information to Sara as needed.

Though the life events of the fictional plan member described above happen to thousands of plan members throughout their career, every member's individual circumstances are unique and every member must make the choices that are appropriate to them. The Municipal Pension Plan is dedicated to providing its members the best service possible from their first day with the Plan through the years that follow.

If you are a plan member, take advantage of the services offered by the Municipal Pension Plan.

Plan Details

Membership

The Municipal Pension Plan had 175,990 active members who worked for 894 employers as of December 31, 2011. The total member base is 274,518.

There are three types of members in the Municipal Pension Plan:

- **Active**—those who are currently contributing, are on a leave of absence or are receiving benefits from an approved long-term disability plan. There are 175,990 active plan members, a 1.7 per cent increase from 2010.
- **Inactive**—those who have terminated their employment but have left their contributions in the Plan. They may or may not be eligible for a pension in the future. There are 31,376 inactive plan members, a 0.1 per cent increase from 2010.
- **Retired**—those who are receiving a pension, including a survivor or disability pension. There are 66,969 retired plan members, a 5.6 per cent increase from 2010.

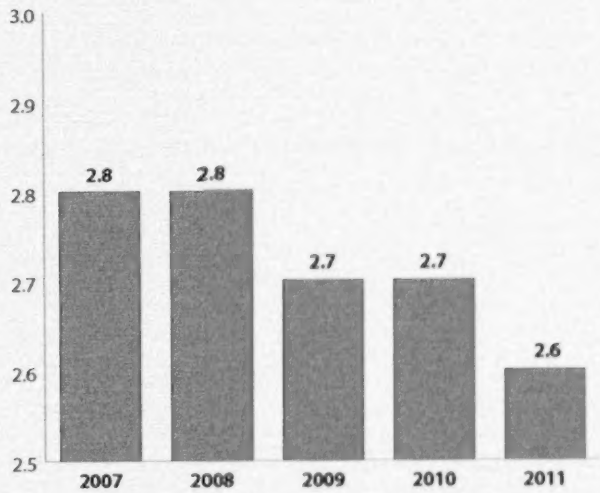
The number of retired members is expected to grow as baby boomers reach retirement age. This changing ratio places more pressure on the Plan as there are fewer active members contributing to the Plan and more retired members drawing pensions out of the Plan.

Between 2000 and 2010, the number of defined benefit plans in Canada rose 65 per cent. The number of defined contribution plans fell 20 per cent.

– source: Statistics Canada, 2010

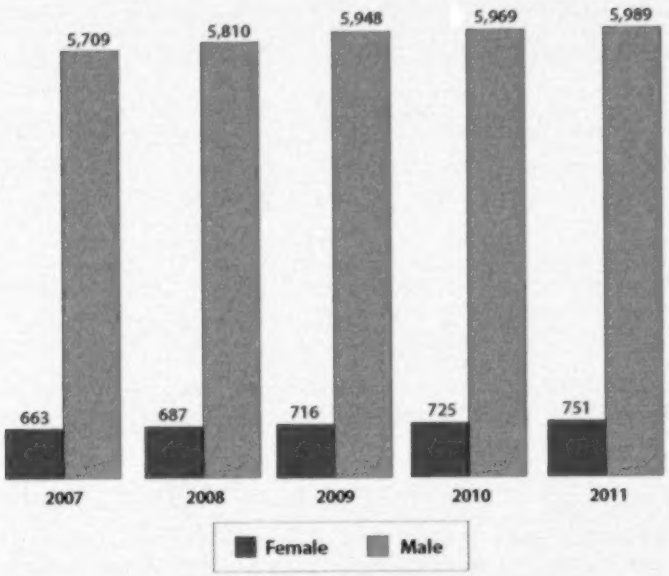
The actuarial valuation considers these changing demographics as part of determining the overall funded status of the Plan. The actuarial valuation also looks at age and gender as well as other demographic factors that affect the projected cost of pensions.

Ratio of Active Members to Retired Members
year ended December 31



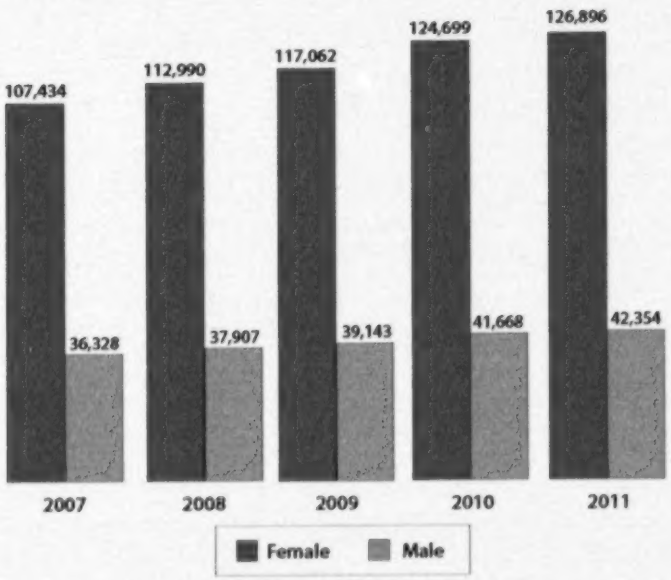
Active Members—Normal Retirement Age 60

year ended December 31

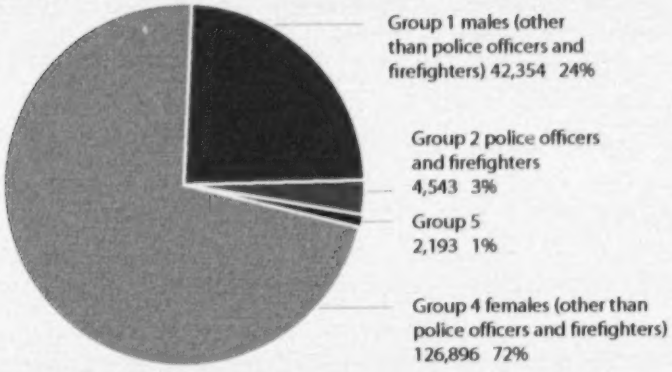


Active Members—Normal Retirement Age 65

year ended December 31

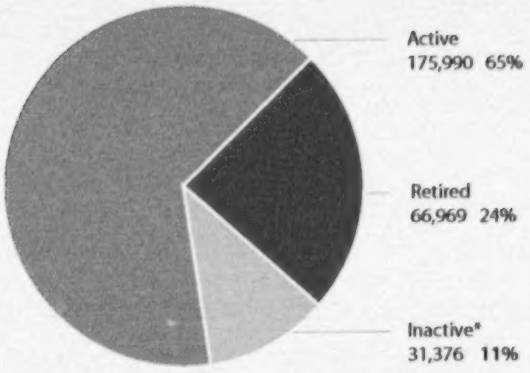


Active Members by Group
as at December 31, 2011


Group 1 males (other than police officers and firefighters) 42,354 24%
Group 2 police officers and firefighters 4,543 3%
Group 5 2,193 1%
Group 4 females (other than police officers and firefighters) 126,896 72%

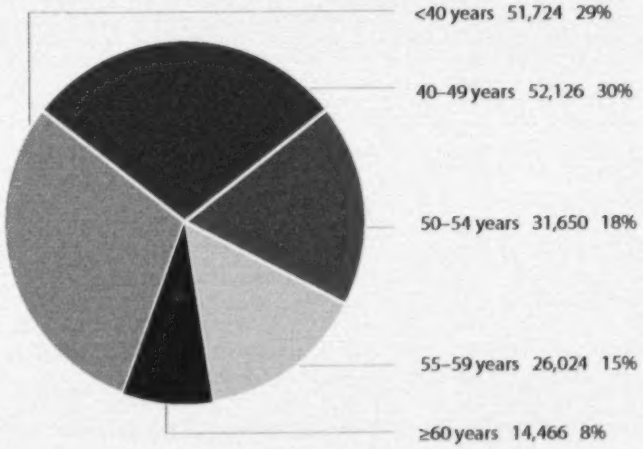
Note: There are also four Group 3 females in a special closed group.

Membership Profile
as at December 31, 2011

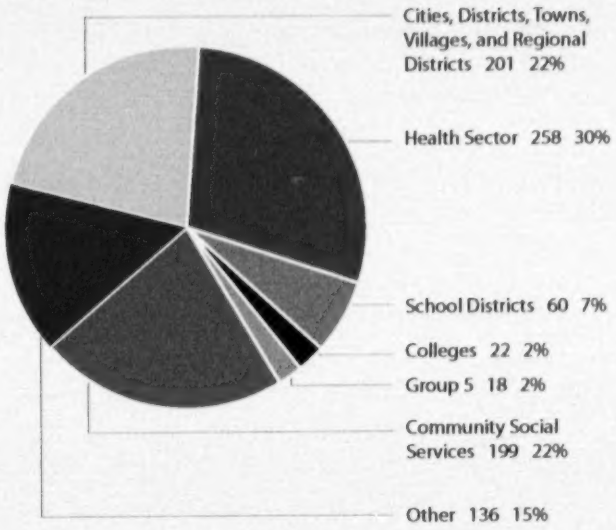


* Members no longer employed with a plan employer, but with money in the Plan.

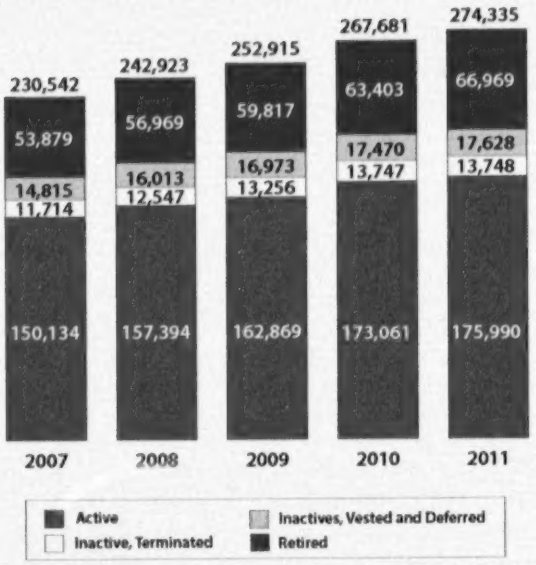
Age Profile of Active Members
as at December 31, 2011



Municipal Pension Plan Employers
as at December 31, 2011


Cities, Districts, Towns, Villages, and Regional Districts 201 22%
Health Sector 258 30%
School Districts 60 7%
Colleges 22 2%
Group 5 18 2%
Community Social Services 199 22%
Other 136 15%

Number of Members
year ended December 31



Number of Members

as at December 31

	Active	Inactive*	Retired	Total
2011	175,990	31,376	66,969	274,335
2010	173,061	31,217	63,403	267,681
2009	162,869	30,229	59,817	252,915
2008	157,394	28,560	56,969	242,923
2007	150,134	26,529	53,879	230,542
2006	144,474	24,882	50,666	220,022
2005	134,376	22,796	47,651	204,823
2004	130,043	21,217	44,915	196,175
2003	128,267	18,648	41,681	188,596
2002	126,662	17,847	38,932	183,441

* Members no longer employed with a plan employer, but with money in the Plan.

Contributions

Plan members and employers both pay contributions to fund future pension benefits. Membership in the Plan is divided into separate benefit groups, each with its own accrual rates and/or earliest retirement ages.

Contribution rates are set by the Board, based on a triennial valuation conducted by the Plan's actuary. This ensures there is always enough money in the pension fund to pay all members' basic pensions for many years into the future.

The Municipal Pension Plan is funded through member and employer contributions (approximately 25%) and investment returns (approximately 75%).

Employers are assigned contribution rates annually based on their employee group classification and the demographics of their respective employee populations. An individual employer's blended rate can increase or decrease from year to year, depending on their employees' ages, genders and salaries.

If a contribution rate increase is required, the Joint Trust Agreement requires that all contribution rate increases be split equally between members and employers. This means that if contribution rates are required to increase by one per cent of salary, the rates will increase by 0.5 per cent of salary for plan members and 0.5 per cent of salary for plan employers.

For individuals, living longer is a great thing. For pension plans it means paying benefits for a longer period and, most significantly, for longer than the plans expected when contribution rates were set for the active members who became today's retirees. Increased longevity is a challenge that pension plans will continue to face.

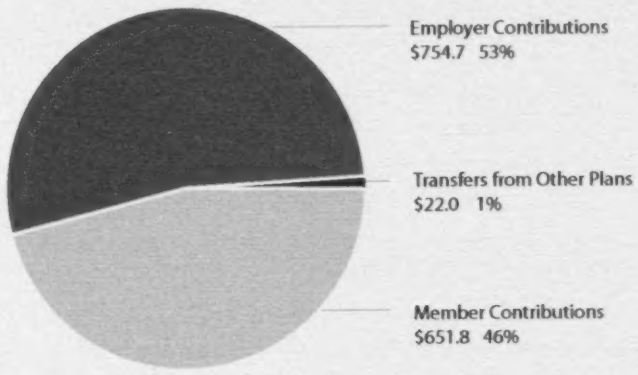
– source: Statistics Canada, 2010

Once a member terminates membership, retires and does not return to work, reaches latest retirement age of 71 or accrues 35 years of pensionable service, they no longer make contributions to the Plan.

At the end of 2011, members in Group 1, 2, 3 and 4 were contributing 7.8 per cent of salary up to and including the Canada Pension Plan year's maximum pensionable earnings (YMPE) ($48,300 in 2011), and 9.3 per cent of salary above that amount.

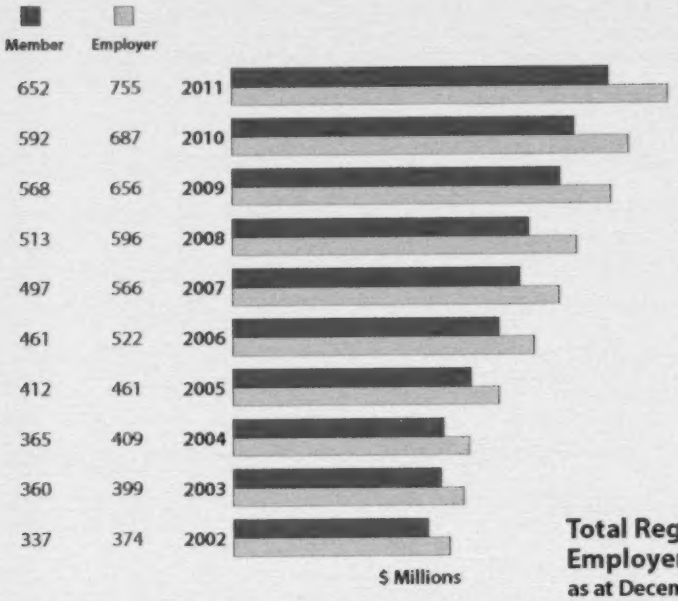
Police officers and firefighters who are Group 5 members of the Plan contribute 9.74 per cent of salary up to and including the YMPE and 11.24 per cent of salary above that amount. Group 2 and Group 5 members can retire earlier than other plan members.

Contributions
year ended December 31, 2011
$ Millions



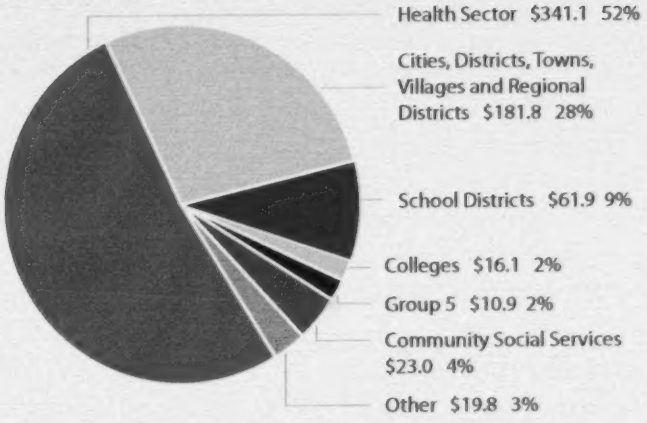
Contributions

year ended December 31



Total Regular Contributions by Employer Sector ($ Millions)

as at December 31, 2011


Health Sector $341.1 52%
Cities, Districts, Towns, Villages and Regional Districts $181.8 28%
School Districts $61.9 9%
Colleges $16.1 2%
Group 5 $10.9 2%
Community Social Services $23.0 4%
Other $19.8 3%

Average Employer Contribution Rates by Sector

as at December 31, 2011

	Number of Employers	Average Rate (%)
Cities, Districts, Towns, Villages and Regional Districts	201	9.37
Health Sector	258	9.39
School Districts	60	9.68
Colleges	22	8.66
Group 5	18	15.07
Community Social Services	199	8.92
Other	136	9.57
Total Employers	**894**	**9.42**

Benefits

The basic pension benefit is based on the years of pensionable service the member has accrued in the Plan and the member's highest average salary (highest 60 months, not necessarily the last 60 months).

The Plan provides entitlement to a pension benefit after two years of contributory service, as well as survivor and disability benefits.

As of December 31, 2011, the Plan provided pensions to 66,969 retired members, an increase of 5.6 per cent from the previous year.

The pension represents a valuable asset, as shown by the value of pensions granted in 2011.

Cost-of-living adjustments (non-guaranteed)

Cost-of-living adjustments (COLA) are a non-guaranteed supplement to the basic lifetime pension. These adjustments cannot exceed the annual increase in the Consumer Price Index (CPI), nor can they exceed the amount of money in the Plan's Inflation Adjustment Account. The Board of Trustees (Board) annually considers all relevant factors to determine if a cost-of-living adjustment will be granted.

On January 1, 2011, retired members received a COLA equal to the full increase in the CPI (measured from September to September of the preceding year), an increase of 1.0 per cent. The Board monitors the Plan's ability to grant any future indexing. (See Note 8b to the Financial Statements.) Once granted, the cost-of-living adjustment becomes part of the basic lifetime pension.

With an annual inflation rate of just three per cent, and without cost-of-living adjustments, a pension would lose a quarter of its value in 10 years, and almost half its value in 20 years.

– source: Statistics Canada, 2010

Over time, cost-of-living adjustments can make up a significant portion of a basic lifetime pension. The Effect of Cost-of-Living Adjustments over 20 Years (1992-2012) illustrates how cost-of-living adjustments have affected pensions over the past 20 years.

Plan benefits are defined by the Plan Rules made under the authority of the Joint Trust Agreement.

New Regular Pensions, by Age at Retirement
Groups 1 and 4 (Regular Retirement Age 65)

subdivided by years of service
year ended December 31, 2011

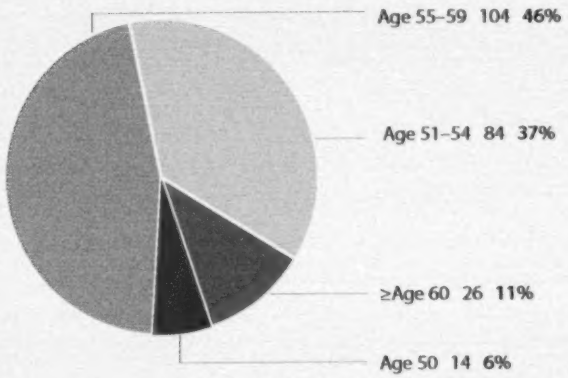
Years of Service	55	56–59	60–64	≥ 65	Total
<10 years	43	141	331	170	685
10 to 14.99	46	123	260	94	523
15 to 19.99	65	125	316	90	596
20 to 24.99	42	108	269	69	488
25 to 29.99	43	105	200	43	391
30 to 34.99	77	186	129	28	420
35 and up	34	62	68	14	178
Total	**350**	**850**	**1,573**	**508**	**3,281**
Average Service	21	20	17	14	19
Average age at Retirement					**60**

New Regular Pensions, by Age at Retirement
Groups 2 and 5 (Regular Retirement Age 60)

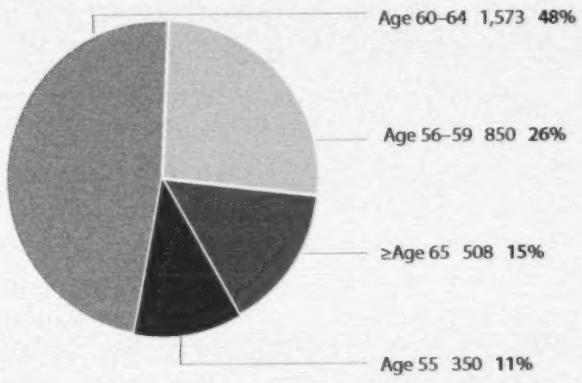
subdivided by years of service
year ended December 31, 2011

Years of Service	50	51–54	55–59	≥ 60	Total
<10 years	—	1	—	3	4
10 to 14.99	—	—	1	3	4
15 to 19.99	2	2	4	—	8
20 to 24.99	—	5	6	2	13
25 to 29.99	6	41	26	5	78
30 to 34.99	5	33	48	11	97
35 and up	1	2	19	2	24
Total	**14**	**84**	**104**	**26**	**228**
Average Service	28	28	30	25	29
Average age at Retirement					**55**

Percentage of New Regular Pensions (total 228)
by age at retirement (regular retirement age 60)
year ended December 31, 2011

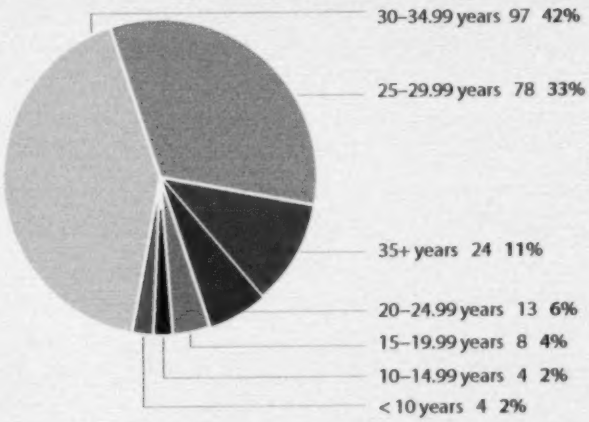


Percentage of New Regular Pensions (total 3,281)
by age at retirement (regular retirement age 65)
year ended December 31, 2011



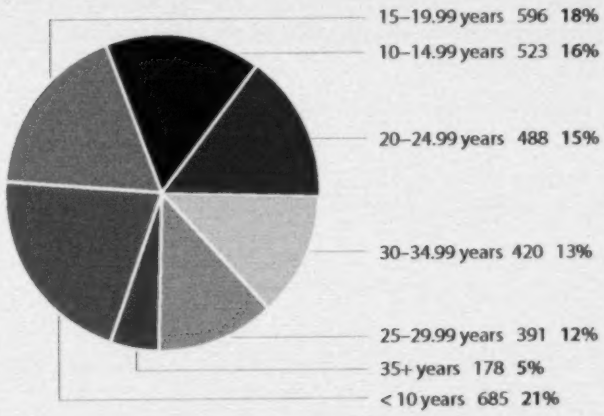
New Regular Pensions (total 228)

by years of service (regular retirement age 60)
as at December 31, 2011



New Regular Pensions (total 3,281)

by years of service (regular retirement age 65)
as at December 31, 2011



Average Value of New Regular Pensions

year ended December 31, 2011

Years of Service	Number of New Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	689	$ 53,000	$ 6,000	$ 75,000	$ 51.7
10 to 14.99	527	55,000	13,100	170,000	89.6
15 to 19.99	604	56,000	18,400	250,000	151.0
20 to 24.99	501	61,000	25,200	355,000	177.9
25 to 29.99	469	68,000	35,600	525,000	246.2
30 to 34.99	517	69,000	43,400	651,000	336.6
35 and up	202	72,000	48,600	716,000	144.6
Total	**3,509**	**n/a**	**n/a**	**n/a**	**$ 1,197.6**
Average for New Regular Pensions	**n/a**	**$ 60,000**	**$ 23,900**	**$ 331,000**	**n/a**

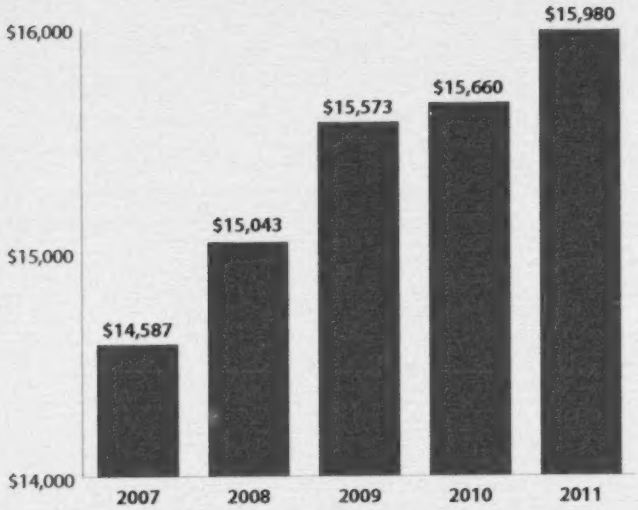
Pensions in Pay 2002–2011

year ended December 31

	Total New Pensions	Net Terminations	Pensions in Force	Basic Pension Payments ($millions)	Cost-of-Living Adjustment Payments ($millions)	Total Pension Payments ($millions)
2011	4,686	1,120	66,969	$891.8	$149.9	$1,041.7
2010	4,508	922	63,403	818.4	146.4	964.8
2009	3,782	934	59,817	756.6	152.7	909.3
2008	4,028	938	56,969	702.5	131.3	833.8
2007	4,161	948	53,879	644.2	118.3	762.5
2006	3,745	730	50,666	592.0	119.1	711.1
2005	3,438	702	47,651	544.5	102.5	647.0
2004	3,937	703	44,915	497.6	96.1	593.7
2003	3,521	772	41,681	436.1	89.0	525.1
2002	3,307	653	38,932	392.7	82.3	475.0

Average Pension in Pay

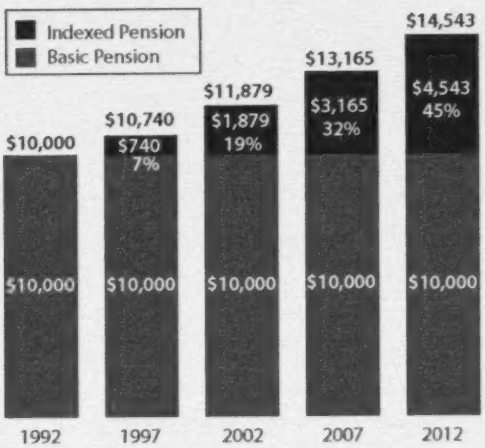
year ended December 31



New Pensions 2002–2011

	Regular	Disability	Death in Service	Deferred	Long-Term Disability to Pension	Total
2011	3,509	7	71	596	503	4,686
2010	3,350	6	67	537	548	4,508
2009	2,744	9	79	543	407	3,782
2008	3,145	13	72	470	328	4,028
2007	3,136	23	77	467	458	4,161
2006	2,851	13	83	410	388	3,745
2005	2,497	28	68	394	451	3,438
2004	3,074	22	72	316	453	3,937
2003	2,925	31	52	224	289	3,521
2002	2,647	25	60	250	325	3,307

Effect of Cost-of-Living Adjustments over 20 Years (1992–2012)



Plan Rule Changes in 2011

Adoption of the Termination and Modification of Employer Participation Policy—Effective November 25, 2011

This policy and Plan Rule Amendment No. 33 replace the Involuntary Employer Withdrawal Policy and set the terms and conditions under which an employer can apply to the Board to end or modify their participation in the Plan. The new policy outlines employer withdrawal application procedures, withdrawal terms and conditions, as well as consequences of termination or modification of plan participation for both employers and members. It also requires employers leaving or reducing their participation in the Plan to provide written notice of the impact to affected members.

What this means to members: If an employer ceases to exist or wants to change its participation in the Plan, there is now a set of rules for them to follow. These rules ensure that both members' pension rights and the Plan are protected.

Clarification for members who are on long-term disability and whose employer's group disability plan loses its approved status under the Plan.

Plan Rule Amendment No. 33 also clarifies what happens for members who are on long-term disability if their employer's group disability plan loses its approved status under the Plan.

What this means to members: If members are receiving long-term disability (LTD) benefits from an approved group disability plan when their employer's LTD plan loses its approved status, they will continue to accrue deemed service as long as proof of their continued entitlement to benefits under the LTD plan is provided to the Municipal Pension Plan on an annual basis.

Policy changes in 2011

Separate member approach—approved in principle

The Board has decided to change how pension benefits will be calculated for members who have consecutive or concurrent service in more than one benefit group (membership in the Plan is divided into separate benefit groups, each with its own accrual rates and/or earliest retirement ages). The Board has not yet identified an effective date for this policy change.

What this means to members: In practical terms, this will only affect members who have service in the Plan in Group 2 or Group 5.

Members who belong to more than one benefit group when the separate member approach (SMA) is effective will have their pension benefit calculated in two steps:

1. Historical service and salary will be combined to calculate their pension benefit accrued prior to the effective date of the SMA.
2. Service earned after the effective date of the SMA will be used to calculate separate pension benefits by group. The salary used to calculate the pension benefit after the effective date of the SMA will be determined by where it was earned, in a public safety occupation or not.

As at December 31, 2011, the Board had not yet identified an effective date. Affected members will be notified of the change when it is implemented.

Investments Held

as at December 31, 2011

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	$ 109,600	0.4%
Bonds (1-5 years)	331,674	1.2%
	441,274	1.6%
Mortgages	1,073,568	3.8%
Bonds		
Global Government	276,194	1.0%
Universe	4,897,570	17.4%
	5,173,764	18.4%
Real Return Bonds	1,710,737	6.1%
Canadian Equities		
Indexed	1,993,995	7.1%
Actively Managed	2,256,022	8.1%
	4,250,017	15.2%
Global Equities		
US Indexed	2,445,056	8.7%
US Actively Managed	1,012,657	3.6%
Global Indexed	274,342	1.0%
Global Active	739,375	2.6%
Europe Indexed	252,105	0.9%
Europe Active	257,980	0.9%
Europe, Australia and the & Far East Indexed	926,154	3.3%
Europe, Australia and the & Far East Active	324,188	1.2%
Asian Indexed	146,582	0.5%
Asian Active	660,399	2.4%
International Hedging	54,583	0.2%
	7,093,421	25.3%
Emerging Markets	1,193,932	4.3%
Real Estate	4,274,157	15.2%
Private Placements	1,344,843	4.8%
Strategic Investments and Infrastructure		
SIFF Public Equities	249,741	0.9%
Domestic Private Placements	75,460	0.3%
Foreign Private Placements	1,088,698	3.9%
Real Estate	74,478	0.2%
	1,488,377	5.3%
Total Investments	**$ 28,044,090**	**100.0%**
2010 Comparison	**$ 27,317,166**	

* Asset classifications vary from the financial statements for the purpose of performance reporting on Strategic Investments and Infrastructure

Top Ten Holdings as at December 31, 2011

Total Canadian Equities

Company	Market Value ($ Thousands)	Per cent of Total Canadian Equity
Toronto Dominion Bank	$ 216,743	5.1%
Royal Bank of Canada	212,133	5.0%
Bank of Nova Scotia	151,956	3.6%
Suncor Energy	150,087	3.5%
Canadian Natural Resources	131,462	3.1%
Barrick Gold Corp	131,370	3.1%
BCE Inc	118,761	2.8%
Canadian National Railway	115,131	2.7%
Goldcorp Inc	110,110	2.6%
Potash Corp of Saskatchewan	108,864	2.6%
Total Top 10	**1,446,617**	**34.0%**
Total Canadian Equities	**$ 4,250,017**	**100.0%**

Total Global Equities

Company	Market Value ($ Thousands)	Per cent of Total Global Equity
Apple Inc	$ 114,740	1.6%
Exxon Mobil Corp	110,408	1.6%
IBM	71,466	1.0%
Microsoft	70,192	1.0%
Google Inc	67,529	1.0%
Procter & Gamble Co	65,271	0.9%
Royal Dutch Shell	62,122	0.9%
Johnson & Johnson	59,064	0.8%
Chevron	58,223	0.8%
General Electric Co	52,912	0.7%
Total Top 10	**731,927**	**10.3%**
Total Global Equities	**$ 7,093,421**	**100.0%**

Total Emerging Markets Equities

Company	Market Value ($ Thousands)	Per cent of Total Emerging Markets Equity
Petroleo Brasileiro	$ 36,955	3.1%
British American Tobacco	33,982	2.8%
Samsung Electronics	31,567	2.6%
Vale Sa	27,647	2.3%
Housing Development Finance Corp	24,707	2.1%
ITAU Unibanco Holdings	23,752	2.0%
HDFC Bank	22,066	1.8%
TATA Group	21,350	1.8%
Fomento Economico Mexicano	20,355	1.7%
Taiwan Semiconductor	19,672	1.6%
Total Top 10	**262,053**	**21.9%**
Total Emerging Markets Equities	**$ 1,193,932**	**100.0%**

Account Investment Asset Mix and Performance

as at December 31, 2011

Asset Class	Target Asset Approved Range (%)	Target Asset Mix Market Value (%)	Actual Asset Mix Market Value (%)	Rate of Return (%)	Performance Benchmark (%)
Fixed income	**22–42**	**32**	**29.9**	**10.5**	**9.7**
Short-term	0–10	2	1.6	4.2	1.0
Mortgages	0–10	5	3.8	6.2	5.1
Nominal Bonds	13–27	20	18.4	9.8	9.7
Real Return Bonds	0–10	5	6.1	17.9	18.3
Equity	**58–78**	**68**	**70.1**	**(6.6)**	**(6.6)**
Canadian Equities	8–22	15	15.2	(9.0)	(9.6)
Global Developed Equities	15–30	23	25.3	(2.8)	(2.9)
Emerging Markets	0–10	5	4.3	(15.6)	(16.4)
Real Estate	10–20	15	15.2	14.9	6.3
Private Placements	0–10	5	4.8	***	***
Strategic Investments and Infrastructure (SIIF)	0–10	5	5.3	***	***
Total Basic Asset Mix	**100**	**100.0**	**100.0**	**3.3**	**1.6**

*** Annual rates of return not available

Latest Actuarial Valuation ($ Millions)

as at December 31

	Basic Pension Benefits Net Surplus (Unfunded Liability)		
	2009	2006	2003
For Funding Purposes	($1,024)	$438	($789)
Ratio of Surplus (Unfunded Liability) to Covered Payroll	95.7%	101.3%	99.8%
For Accounting Purposes	($970)	$217	($29)

Employer Contribution Rates

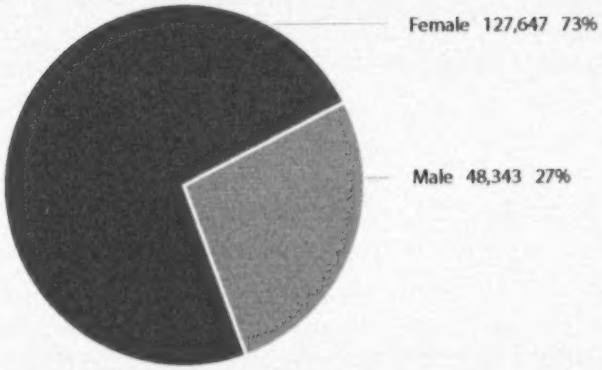
effective July 2011
includes inflation adjustment account contribution rates

	<45 Yrs	≥45 Yrs	<50 Yrs	≥50 Yrs
Salaries less than or equal to YMPE				
Group 1	—	—	6.32%	11.22%
Group 2	8.28%	16.78%	—	—
Group 4	—	—	6.82%	12.22%
Group 5	10.22%	18.72%	—	—
Salaries greater than YMPE				
Group 1	—	—	7.82%	12.72%
Group 2	9.78%	18.28%	—	—
Group 4	—	—	8.32%	13.72%
Group 5	11.72%	20.22%	—	—

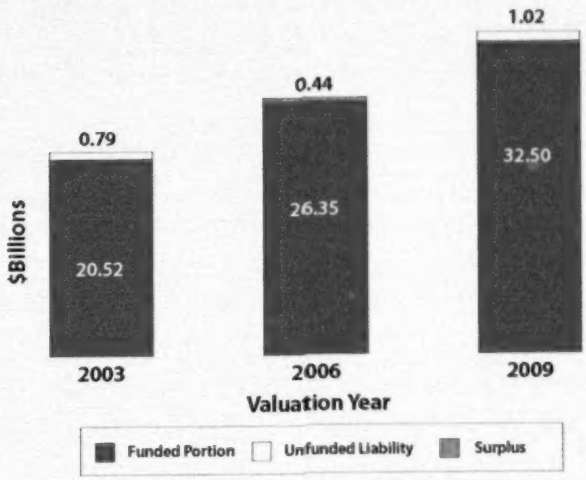
Investment Holdings ($ Billions)
as at December 31, 2011

Global Equities 7.1 25%
Bonds 5.1 19%
Real Estate 4.3 15%
Canadian Equities 4.3 15%
Real Return Bonds 1.7 6%
Strategic Investments and Infrastructure 1.5 5%
Private Placements 1.3 5%
Emerging Markets 1.2 4%
Mortgages 1.1 4%
Short-term 0.4 2%

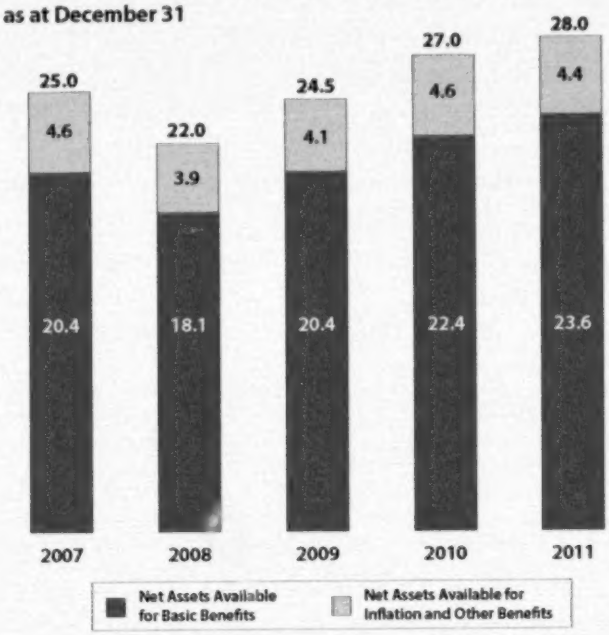
Active Member Profile
as at December 31, 2011



Funding of the Total Basic Benefit Liability
as at December 31



Net Assets Available for Benefits ($ Billions)
as at December 31



Financial Statements

PENSION CORPORATION
We make it easy

Executive Offices

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MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles for pension plans. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles for pension plans in Canada. Other financial information contained in the Municipal Pension Plan Annual Report is consistent with to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of PricewaterhouseCoopers LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditor's Report attached to these financial statements.

Cheryl Fason, MBA, CGA, RPA
Vice President, Financial and Plan Board Services
British Columbia Pension Corporation

Bruce Nicol, CA
Director, Pension Plan and Corporate Financial Services
British Columbia Pension Corporation

June 21, 2012

pwc

June 21, 2012

Independent Auditor's Report

To the Members of the Municipal Pension Plan

We have audited the accompanying financial statements of the Municipal Pension Plan, which comprise the statements of financial position as at December 31, 2011 and December 31, 2010, and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Pension Plan as at December 31, 2011 and December 31, 2010 and the changes in its net assets available for benefits and changes in its accrued pension benefits for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF FINANCIAL POSITION
($ Thousands)

As at December 31	2011	2010 (Note 2a)
ASSETS		
Investments at fair value (Note 3)	$ 28,044,090	$ 27,317,166
Receivables		
Members' contributions	26,921	23,689
Employers' contributions	29,264	25,819
Other	4,546	1,146
Accrued investment income	37	35
Due from sale of investments	29,859	4,001
	90,627	54,690
Prepaid expenses	8,210	7,463
Cash	254	732
Total Assets	28,143,181	27,380,051
LIABILITIES		
Payable for purchase of investments	75,698	336,416
Accounts payable and accrued expenses	30,943	26,633
Total Liabilities	106,641	363,049
NET ASSETS AVAILABLE FOR BENEFITS	$ 28,036,540	$ 27,017,002
ACCRUED PENSION BENEFITS		
Accrued Pension Benefits - Basic (Note 9a)	$ 25,440,449	$ 23,843,863
Accrued Pension Benefits - Non-guaranteed (Note 9b)	4,415,792	4,292,846
Retirement Annuity Account (Note 9c)	320,088	324,219
Accrued Pension Benefits	30,176,329	28,460,928
Current contribution method unfunded actuarial liability (Note 8a)	(566,427)	(1,275,965)
Measurement differences between funding and accounting positions (Note 8a)	(1,573,362)	(167,961)
Deficit	(2,139,789)	(1,443,926)
ACCRUED PENSION BENEFITS AND DEFICIT	$ 28,036,540	$ 27,017,002

All accompanying notes are an integral part of these financial statements including:

- Commitments (Note 12)
- Financial Instruments (Note 13)
- Capital Disclosures (Note 14)

Approved by the Municipal Pension Board of Trustees:

Steven Polak
Trustee,
Municipal Pension Board of Trustees

Hilary Woodward
Trustee,
Municipal Pension Board of Trustees

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2011	Totals 2010
INCREASE IN ASSETS						
Investment income (Note 4)						
Income allocation	$ 755,483	$ 10,459	$ 142,495	$	$ 908,437	$ 732,393
Change in fair value	15,188		70		15,258	1,692,757
	770,671	10,459	142,565		923,695	2,425,150
Contributions (Note 5)						
Members'	556,315	9,047	83,713	2,748	651,823	591,731
Employers'	636,911	11,057	44,830	61,942	754,740	687,358
	1,193,226	20,104	128,543	64,690	1,406,563	1,279,089
Transfers from other plans	16,716		5,236		21,952	13,897
Total Increase in Assets	1,980,613	30,563	276,344	64,690	2,352,210	3,718,136
DECREASE IN ASSETS						
Benefits (note 6)	1,112,902	20,103	49,917	4,111	1,187,033	1,057,246
Transfers to other plans	13,890		4,798		18,688	16,726
Retired member group benefits (Note 11)				59,369	59,369	56,686
Investment and Administration costs (Note 10)	59,736		6,636	1,210	67,582	60,225
Total Decrease in Assets	1,186,528	20,103	61,351	64,690	1,332,672	1,190,883
INCREASE IN NET ASSETS BEFORE TRANSFERS	794,085	10,460	214,993		1,019,538	2,527,253
Account transfers (Note 7)	106,638	(14,591)	(92,047)			
INCREASE IN NET ASSETS	900,723	(4,131)	122,946		1,019,538	2,527,253
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	22,399,937	324,219	4,292,846		27,017,002	24,489,749
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 23,300,660	$ 320,088	$ 4,415,792	$	$ 28,036,540	$ 27,017,002

Supplemental Benefits Account (Note 11)

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
($ Thousands)

For the year ended December 31	2011	2010
Increase in accrued pension benefits		
Interest on accrued pension benefits	$ 1,554,357	$ 1,455,318
Benefits accrued	1,112,284	1,058,381
Changes in actuarial assumptions		734,730
Account transfers	106,638	13,633
	2,773,279	3,262,062
Decrease in accrued pension benefits		
Experience losses		(131,456)
Benefits paid	1,176,693	1,068,352
	1,176,693	936,896
Net increase in accrued pension benefits	1,596,586	2,325,166
Accrued basic pension benefits, beginning of year	23,843,863	21,518,697
Accrued basic pension benefits, end of year (Note 9a)	25,440,449	23,843,863
Change in non-guaranteed benefits accrued (Note 9b)	122,946	473,703
Accrued non-guaranteed pension benefits, beginning of year	4,292,846	3,819,143
Accrued non-guaranteed pension benefits, end of year (Note 9b)	4,415,792	4,292,846
Change in Retirement Annuity Account (Note 9c)	(4,131)	17,385
Retirement Annuity Account, beginning of year	324,219	306,834
Retirement Annuity Account, end of year (Note 9c)	320,088	324,219
Total accrued pension benefits, end of year	$ 30,176,329	$ 28,460,928

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The following brief description of the Municipal Pension Plan (Plan) is a summary and is provided for general information only. For more information please refer to the Joint Trust Agreement (Agreement) and the Plan rules (pension plan rules).

a) General

The Plan is a jointly trusteed contributory defined benefit pension plan continued in agreement by the Public Sector Pension Plans Act, *S.B.C 1999*, s.44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government of British Columbia and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make pension plan rules.

The Plan is registered with the Superintendent of Pensions which administers and enforces the Pension Benefits Standards Act (PBSA). The PBSA governs employment pension plans that have members in British Columbia.

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

Partners
The Partners and appointing authorities representing the Plan members and Plan employers are responsible for appointing the sixteen trustees and sixteen alternate trustees representing Plan members and Plan employers. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, directing amendments to the pension plan rules.

Board
The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by Plan surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 8a). Unless required to ensure compliance with regulatory enactments applicable to the Plan, pension plan rule changes that result in contribution rate changes can only be initiated by the Partners. The Chair and Vice Chair are appointed by the other trustees.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board. On nomination of the Partners, the Board appoints two members to the eight member board of directors of the Pension Corporation.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board. The Board appoints one member to the seven member board of directors of bcIMC.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Funding

Contributions and investment earnings fund Plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes (Note 8).

The Board's funding policy is intended to secure the pension promise and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

Basic Account
Members contributed to the Basic Account 6.80% (5.99% to June 30, 2011) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($48,300 in 2011) and 8.30% (7.49% to June 30, 2011) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5, 8a and 11).

Employers contributed to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account (Notes 5, 8a and 11).

Inflation Adjustment Account and Supplemental Benefits Account
Members contributed 1% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5, 8b and 11).

Retirement Annuity Account
Some employers have special agreements with members by which additional contributions are made to increase members' pension benefits. These contributions are credited to the Retirement Annuity Account. Depending on benefit eligibility the accumulated monies at retirement are used to fund the purchase of a pension (Note 7) or are paid out as a lump sum benefit.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

e) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average annual salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to the availability of funds in the IAA (Notes 7 and 8b). Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

At January 1, 2012, retired members will receive a cost-of-living adjustment of 3.2% (2011: 1.0%).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

f) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a Plan employer, or if under age 60 with less than two years of contributory service (age 55 for certain groups), may also choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

g) Other Benefits

Disability and survivor benefits are also available under the Plan. A disability pension is available at any age to a member who becomes totally disabled as defined by the Plan, has at least two or more years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements. The pension is calculated using a member's years of pensionable service to the date of the disability retirement and HAS. Disability pensions continue until normal retirement or until the member is able to return to work (Note 6). A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment (Note 6).

Supplemental benefits (Note 11) may also be funded from the Supplemental Benefits Account.

h) Tax Registration

The Plan is a Registered Pension Plan (RPP) as defined in the Income Tax Act (Canada) (Tax Act) (registration number 0359158), except for any supplemental benefits (Note 11) which are funded in addition to the RPP. The Plan is not subject to income taxes.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles (GAAP) for pension plans, Part IV of the Canadian Institute of Chartered Accountants (CICA) handbook, and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans.

Effective January 1, 2011, the Plan adopted CICA handbook section 4600, *Pension Plans*. The more significant changes to the financial statements and notes include the addition of the accrued pension benefit amounts and the resulting surplus/deficit in the Statement of Financial Position; and the inclusion of a new financial statement, the Statement of Changes in Accrued Pension Benefits. Financial statement note disclosure has also been affected. There were no adjustments to the balance of net assets available for benefits as a result of implementing the accounting changes. Accounting standards for private enterprises in Part II of the CICA handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or pension obligations. Previously the accrued pension benefit amounts were reported in the notes to the financial statements.

International Financial Reporting Standard (IFRS)13, *Fair Value Measurement* which will apply for annual periods beginning on or after January 1, 2013 has been early adopted. This standard permits the use of closing market prices in the determination of fair values for financial assets. There is no impact on the financial statements as closing prices have historically been used in determining the fair value of the Plan's financial assets.

b) Accrued Pension Benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The valuation of accrued pension benefits is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method prorated on service which incorporates the Board's estimate of various economic and non-economic assumptions.

c) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Fair value represents estimates of the consideration that would be agreed upon between arms length, knowledgeable, willing parties who are under no compulsion to act. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. It is best evidenced by a quoted closing market price, if one exists. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

e) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income received and paid from derivative contracts is recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

f) Use of Estimates

The preparation of financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments (primarily real estate and private placements) and the calculation of the accrued pension benefit for the Basic Account for accounting and funding purposes. Actual results could differ materially from these estimates.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

3. INVESTMENTS (FAIR VALUE)

	2011			2010
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 371,681	$ 69,593	$ 441,274	$ 702,540
Canadian Bonds (Note 12)	5,798,758	1,085,743	6,884,501	6,802,616
Canadian Equities	3,790,109	709,649	4,499,758	4,875,064
U.S. Equities	2,912,403	545,310	3,457,713	3,110,495
International Equities	4,067,966	761,674	4,829,640	4,630,690
Mortgages	904,257	169,311	1,073,568	1,210,084
Real Estate	3,662,820	685,815	4,348,635	3,808,128
Private Placements	2,113,311	395,690	2,509,001	2,177,549
	$ 23,621,305	$ 4,422,785	$ 28,044,090	$ 27,317,166

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments. The Plan directly holds Canadian real return bonds of $12.5 million (2010: $11.4 million) and a private placement investment of $206.2 million (Note 12) (2010: $194.5 million). The Basic and IAA portfolios are combined for investment purposes.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and investment grade corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, consist mainly of investments in the stock markets of Europe and Asia, as well as key emerging markets.

Short-term investments are valued using current market yields. Canadian bonds are valued based on current market yields and in some cases quoted market prices. Canadian, U.S. and International equities are valued based on quoted market prices.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

3. INVESTMENTS (FAIR VALUE) (continued)

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 13).

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

Derivative contracts consist of foreign exchange contracts and are held indirectly through various pooled investment portfolios to manage exposure to foreign currency risk.

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2011: $320.1 million; 2010: $324.2 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

4. INVESTMENT INCOME

	2011			2010		
	Income Allocation	Current Period Change in Fair Value	Total	Income Allocation	Current Period Change in Fair Value	Total
			($ Thousands)			
Basic Account						
Short-term	$ 7,021	$ 7,984	$ 15,005	$ 5,143	$ 1	$ 5,144
Canadian Bonds	219,583	427,643	647,226	186,078	252,266	438,344
Canadian Equities	100,835	(451,960)	(351,125)	85,284	520,362	605,646
U.S. Equities	59,222	63,957	123,179	48,714	198,005	246,719
International Equities	136,843	(563,576)	(426,733)	106,968	136,271	243,239
Mortgages	53,032	7,237	60,269	50,724	25,690	76,414
Real Estate	95,446	346,849	442,295	80,913	144,869	225,782
Private Placements	93,960	177,054	271,014	53,182	146,275	199,457
	765,942	15,188	781,130	617,006	1,423,739	2,040,745
Less Retirement Annuity Account Income Allocation			(10,459)			(29,540)
			770,671			2,011,205
Inflation Adjustment Account						
Short-term	1,287	1,492	2,779	942	(10)	932
Canadian Bonds	40,841	79,582	120,423	34,774	48,179	82,953
Canadian Equities	18,759	(84,963)	(66,204)	15,961	97,245	113,206
U.S. Equities	11,021	12,151	23,172	9,121	35,478	44,599
International Equities	25,431	(105,607)	(80,176)	19,992	25,025	45,017
Mortgages	9,860	1,255	11,115	9,477	4,977	14,454
Real Estate	17,780	63,499	81,279	15,125	30,211	45,336
Private Placements	17,516	32,661	50,177	9,995	27,913	37,908
	142,495	70	142,565	115,387	269,018	384,405
Total Investment Income	$ 908,437	$ 15,258	$ 923,695	$ 732,393	$ 1,692,757	$ 2,425,150

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unit holder, and as calculated by bcIMC, and income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account. Certain external investment management costs are netted against investment income (Notes 10 and 13).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

5. CONTRIBUTIONS

	2011					2010
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account (Note 11)	Total	Total
	($ Thousands)					
Members' contributions						
Regular	$ 552,304	$ -	$ 83,038	$ 2,748	$ 638,090	$ 579,126
Special agreements	-	9,047	-	-	9,047	9,293
Past service purchases	4,011	-	675	-	4,686	3,312
	556,315	9,047	83,713	2,748	651,823	591,731
Employers' contributions						
Regular	632,257	-	44,217	2,573	679,047	614,947
Special agreements	-	11,057	-	-	11,057	11,358
ERIP contributions	199	-	65	-	264	123
Past service purchases	4,455	-	548	-	5,003	4,244
Retired member group benefits	-	-	-	59,369	59,369	56,686
	636,911	11,057	44,830	61,942	754,740	687,358
Total Contributions	$ 1,193,226	$ 20,104	$ 128,543	$ 64,690	$1,406,563	$ 1,279,089

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

6. BENEFITS

	2011			
	Basic Account	Inflation adjustment Account	Retirement Annuity Account	Total
	($ Thousands)			
Regular pension benefits	$ 885,689	$ -	$ -	$ 885,689
Indexing - regular pension benefits	147,149	-	-	147,149
Termination and refund benefits	62,043	43,134	20,055	125,232
Death benefit payments	13,292	6,783	48	20,123
Disability pensions	6,090	-	-	6,090
Indexing - disability pensions	2,750	-	-	2,750
	$ 1,117,013	$ 49,917	$ 20,103	$ 1,187,033

	2010			
	($ Thousands)			
Regular pension benefits	$ 812,249	$ -	$ -	$ 812,249
Indexing - regular pension benefits	143,588	-	-	143,588
Termination and refund benefits	37,199	19,502	21,171	77,872
Death benefit payments	9,857	4,616	76	14,549
Disability pensions	6,152	-	-	6,152
Indexing - disablility pensions	2,836	-	-	2,836
	$ 1,011,881	$ 24,118	$ 21,247	$ 1,057,246

7. ACCOUNT TRANSFERS

	2011			2010		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
			($ Thousands)			
Present value of current indexing supplements	$ 90,634	$ -	$ (90,634)	$ 57	$ -	$ (57)
Indexing of deferred pensions	5,790	-	(5,790)	5,503	-	(5,503)
Pensions purchased from Retirement Annuity Account	10,214	(14,591)	4,377	8,073	(11,559)	3,486
	$ 106,638	$ (14,591)	$ (92,047)	$ 13,633	$ (11,559)	$ (2,074)

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1d), from investment income earned and from excess interest earned in the Basic Account.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

7. ACCOUNT TRANSFERS (continued)

All pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment.

When a deferred pension is paid, the present value of cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $65.1 million (2010: $59 million) of the current IAA balance is for cost-of-living adjustments intended for deferred pensions, but not yet transferred to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2011. Excess interest is based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $10.2 billion of assets for 2010 (2010: $9.4 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return (2.8%) and the rate of return used by the actuary (6.5%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2011 was -3.7% (2010: -1.4%) resulting in a negative excess interest amount of $376.3 million (2010: $132.0 million negative excess interest). The cumulative negative excess interest amount of $947.8 million will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

Excess Interest	**2011**	**2010**
	($ Millions)	
Cumulative negative excess interest, beginning of year	$ (556.0)	$ (403.4)
Interest applied to beginning of year amount	(15.5)	(20.6)
Negative excess interest	(376.3)	(132.0)
Cumulative negative excess interest, end of year	$ (947.8)	$ (556.0)

A separate Retirement Annuity Account is maintained to record additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to purchase a pension at retirement, monies are transferred from the Retirement Annuity Account to the Basic and the IAA to fund the pension.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement, PBSA, the Tax Act and Regulations an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate is then adjusted for the amortization of any actuarial funding surplus or unfunded actuarial liability. The latest full actuarial valuation for funding purposes was prepared as at December 31, 2009 by Eckler Ltd. Based on the result of the valuation, the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its proper funding. Effective July 1, 2011, member and employer basic contribution rates were each increased by 0.81% of salaries, as recommended by the actuary.

The Basic Account is also the account from which any cost-of-living adjustments that have been granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (Note 8b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as yet unknown future cost-of-living adjustments.

Transitional period

The Agreement specifies a transitional period during which actuarial deficits will be amortized over 15 years, as required by the PBSA, and actuarial gains must be used to achieve the following objectives, in order of priority:

1. Eliminating any unfunded liability.
2. Simultaneously rebalancing member and employer contribution rates to the level of member contribution rates in effect at the time the Agreement was negotiated and providing specified benefit improvements.
3. Transfer funds in equal measure to a Contribution Rate Stabilization Reserve and to the IAA, to an aggregate total of one billion dollars. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

If these transitional objectives are achieved, the Agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers. The Plan actuary has determined that, absent significant investment returns in excess of the valuation investment return assumption, it is unlikely that transition on the terms set out in the Agreement can be completed in the long term.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Transitional period (continued)

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

Actuarial valuation

Based on the actuarial valuation prepared as at December 31, 2009, and taking into account the present value of future contributions at the current contributions rate (current contribution method) the plan had an unfunded liability of $1,024 million. As the Plan may not reduce contribution rates until there is sufficient surplus to complete step 2 of transition, an event which may not occur, the current contribution method is the basis on which the Plan's actuarial position is disclosed.

An estimate of the actuarial position of the plan on the current contribution method has been made to December 31, 2011, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

The extrapolated current contribution method unfunded actuarial liability is:

As at December 31	2011	2010
	($ Millions)	
Net assets available for basic pension benefits	$ 23,301	$ 22,400
Actuarial asset value adjustment	268	208
Smoothed assets for basic pension benefits	23,569	22,608
Present value of future contributions (current contribution method)	13,396	11,572
Net actuarial assets for basic pension benefits	36,965	34,180
Liability for accrued and future basic pension benefits	(37,531)	(35,456)
Current contribution method unfunded actuarial liability	$ (566)	$ (1,276)

This estimate, called an extrapolation, produced an estimated current contribution method unfunded actuarial liability of $566 million at December 31, 2011 (estimated current contribution method unfunded actuarial liability of $1,276 million as December 31, 2010 based on an extrapolation from the December 31, 2009 valuation of $1,024 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial valuation (continued)

Changes in the extrapolated current contribution method unfunded actuarial liability between 2010 and 2011:

($ Millions)	
Current contribution method unfunded actuarial liability at December 31, 2010	$ (1,276)
Change in liabilities	(2,075)
Net change in assets	2,785
Current contribution method unfunded actuarial liability at December 31, 2011	$ (566)

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations various factors, including actual wage increases, investment earnings and the incidence of retirements, and withdrawals may vary significantly from the long-term assumptions used in the extrapolation.

The next full actuarial valuation will be as at December 31, 2012, which will be disclosed in the December 31, 2013 financial statements.

Measurement differences between funding and accounting positions

The primary components of the measurement differences between the extrapolated current contribution method unfunded actuarial liability and the financial statement deficit are as follows:

	2011	2010
	($ Millions)	
Current contribution method unfunded actuarial liability	$ (566)	$ (1,276)
Actuarial asset value adjustment	(268)	(208)
Difference in actuarial methods - present value of future current rate contributions	(13,396)	(11,572)
Difference in actuarial methods - present value of future liabilities	12,090	11,612
Measurement differences between funding and accounting positions	(1,574)	(168)
Deficit for financial statement purposes	$ (2,140)	$ (1,444)

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial asset value adjustment

For the purposes of determining the current contribution method unfunded actuarial liability, the actuarial value of net assets available for benefits is determined on an adjusted value basis which smoothes the difference between the actual investment return and the expected return based on a long-term real return rate over a five year period.

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the current contribution method unfunded actuarial liability. The amounts are based on that proportion of the total fund related to the Basic Account assets.

	Unamortized Gains/(Losses)	
	2011	2010
	($ Millions)	
2011	$ -	$ (399)
2012	(455)	(339)
2013	260	374
2014	42	156
2015	(115)	-
Total Adjustment	$ (268)	$ (208)

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method prorated on service, the pension liability for funding purposes uses the current contribution method, where the present value of future contributions at the current contribution rate and future service benefits are included in the determination of the funded status of the plan.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for that granted cost-of-living adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustment.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA) (continued)

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and when the Plan may not be able to grant full cost-of-living adjustments for retired members.

9. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 8a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes in Note 8a. The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service.

The latest full actuarial valuation for accounting purposes was prepared as at December 31, 2009, by Eckler Ltd. This valuation calculated the liability for accrued basic pension benefits to be $22,385 million.

Between valuations, an estimate of the actuarial position is required. This estimate, called an extrapolation, has been made to December 31, 2011, using the following long-term actuarial assumptions:

- annual investment return — 6.50% (2006: 6.75%)
- annual salary escalation rate — 3.75% (2006: 4.00%)

The extrapolation calculated the liability for accrued basic pension benefits to be $25,440 million (2010: $23,844 million).

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

9. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

a) Basic Account (continued)

The next full actuarial valuation will be at December 31, 2012 which will be disclosed in the December 31, 2013 financial statements.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential inflation adjustments (Note 8b).The accrued non-guaranteed pension benefits obligation is therefore equal to the net assets available for benefits in the IAA, $4,416 million (2010: $4,293 million). The net increase of $123 million (2010: $474 million) in the IAA balance is comprised of employee and employer contributions and earnings on investments reduced by payments out of the account.

c) Retirement Annuity Account (RAA)

The RAA is comprised of additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to purchase a pension at retirement, monies are transferred from the RAA to the Basic and the IAA to fund the pension. No unfunded liability exists as the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA, $320 million (2010: $324 million). The decrease of $4 million (2010: increase $17 million) in the RAA balance is comprised of employee and employer contributions and earnings on investments reduced by payments out of the account.

10. INVESTMENT AND ADMINISTRATION COSTS

	2011	2010
	($ Thousands)	
Investment management	$ 42,340	$ 34,621
Benefit administration	23,279	23,496
Board remuneration and expenses	556	601
Board secretariat costs	509	505
Actuarial	134	248
Audit	67	64
Other professional services	697	690
	$ 67,582	$ 60,225

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

10. INVESTMENT AND ADMINISTRATION COSTS (continued)

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by investment pooled funds. Investment management costs of $14.0 million (2010: $12.0 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount as they are netted against the related investment income.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. Included in accounts payable is $3.4 million (2010: $3.1 million) due to the Pension Corporation related to these costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with Board support.

Other professional services include insurance and legal fees incurred directly by the Plan.

11. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits, for example, pension benefits which exceed the Tax Act limits for registered pension plans are paid through this account. Certain group benefit coverage has been provided for retired members through the account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and should not exceed 0.8% of pensionable salaries. Currently the 0.8% maximum represents approximately 80% of contributions that would otherwise be employer inflation contributions. To the extent medical service plan premiums are funded through the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer basic contributions. Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

12. COMMITMENTS

The Plan participates in private placement and international real estate pools managed by bcIMC. As at December 31, 2011, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $863 million ($931 million).

bcIMC established a collateral account for the Plan that is pledged as security for a future investment opportunity. As at December 31, 2011, $12.5 million ($11.4 million) of Basic Account Canadian Bonds are being held as collateral for a letter of credit.

13. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values due to their short term nature.

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, bcIMC. The SIPP requires diversification of investments within asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by bcIMC and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board.

a) Fair Value

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

- Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

The following table details the classification of the Plan's financial instruments within the fair value hierarchy as at December 31:

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				($ Millions)				
Short-term	$ -	$ 441	$ -	$ 441	$ (4)	$ 707	$ -	$ 703
Canadian Bonds	8	6,895	-	6,903	(1)	6,804	-	6,803
Canadian Equities	4,452	48	-	4,500	4,826	49	-	4,875
U.S. Equities	3,430	28	-	3,458	3,092	18	-	3,110
International Equities	4,782	48	-	4,830	4,619	12	-	4,631
Mortgages	(1)	1,056	27	1,082	2	1,158	26	1,186
Real Estate	(8)	21	4,262	4,275	4	15	3,480	3,499
Private Placement	4	15	2,490	2,509	2	32	2,144	2,178
	$ 12,667	$ 8,552	$ 6,779	$ 27,998	$ 12,540	$ 8,795	$ 5,650	$ 26,985

Included in the above table are investments, accrued investment income and amounts due from the sale of and payable for the purchase of investments.

There were no significant transfers of investments between Level 1 and Level 2.

The following table reconciles the Plan's Level 3 fair value measurements.

	2011			
	Mortgages	Real Estate	Private Placement	Total
		($ Millions)		
Balance, beginning of year	$ 26	$ 3,480	$ 2,144	$ 5,650
Net investment income	2	519	182	703
Purchases	1	460	1,045	1,506
Settlements	(2)	(226)	(881)	(1,109)
Effect of change in share of unit holdings	-	29	-	29
Balance, end of year	$ 27	$ 4,262	$ 2,490	$ 6,779

	2010			
		($ Millions)		
Balance, beginning of year	$ 35	$ 3,324	$ 1,851	$ 5,210
Net investment income	(5)	245	170	410
Purchases	4	134	315	453
Settlements	(8)	(223)	(192)	(423)
Balance, end of year	$ 26	$ 3,480	$ 2,144	$ 5,650

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

For Level 3 financial instruments unrealized gains on investments held as at December 31, 2011, of $551 million (2010: $300 million) and gains realized and investment income earned during the year of $152 million (2010: $110 million) are included in investment income in Note 4. The effect of change in share of unit holdings reflects the impact on the plan's proportionate holdings within the pool, resulting from other pool participants either entering or exiting the pool.

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada. Investment assumptions used in determining the fair value of real estate investments and private placements are appropriate for the nature of the investment and the market in which the investment is located.

Level 3 investments are primarily comprised of investments in real estate and private placements. The potential impact of possible alternative assumptions on the fair value of each investment is not determinable, due to the nature of the external real estate investment manager valuations or independent appraisals for each real estate investment and the use of other valuation techniques for private placements. The fair values are determined using the most appropriate appraisal method for each real estate investment and the most appropriate valuation technique for private placements.

b) Market Risk

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk is comprised of foreign currency risk, interest rate risk, and price risk. Market risk is managed through asset class diversification, diversification within each asset class and credit quality requirements for investments.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

13. FINANCIAL INSTRUMENTS (continued)

b) Market Risk (continued)

i) Foreign Currency Risk

Foreign currency exposure arises from foreign currency denominated investments held indirectly through pooled investment portfolios. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. bcIMC has currency exposure management programs under which it hedges foreign currency exposure through the use of foreign currency forward contracts. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. The Plan's total direct and indirect currency exposure, the impact of hedging and trading activities and its net exposure as at December 31 are as follows:

	2011 Fair Value By Currency				2010 Fair Value By Currency			
(Millions Cdn dollar equivalent)	Total Exposure	Hedging	Net Exposure	% of Total	Total Exposure	Hedging	Net Exposure	% of Total
United States	$ 5,771	$ 411	$ 5,360	61%	$ 4,588	$ 536	$ 4,052	53%
Other Pacific	1,152	19	1,133	13%	1,463	20	1,443	19%
United Kingdom	739	40	699	8%	685	25	660	9%
Other Europe	569	-	569	6%	403	1	402	5%
Emerging markets	381	-	381	4%	339	-	339	4%
Japan	343	3	340	4%	410	2	408	6%
Euro Countries	825	508	317	4%	866	552	314	4%
	$ 9,780	$ 981	$ 8,799	100%	$ 8,754	$ 1,136	$ 7,618	100%

In addition to the investments in foreign currencies, the Plan held $18.2 billion (2010: $18.2 billion) of investments denominated in Canadian dollars. The net foreign currency exposure represents 31% (2010: 28%) of the Plan's total investments.

Included in this table, as at December 31, 2011 and 2010, is net accounts payable for outstanding sales and purchases of investments and accrued investment income.

As at December 31, 2011, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets would have decreased or increased by approximately $879.9 million (2010: $761.8 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

13. FINANCIAL INSTRUMENTS (continued)

b) Market Risk (continued)

ii) Interest Rate Risk

Interest rate risk is the risk that the Plan's investments will change in fair value due to future fluctuations in market interest rates. The risk arises primarily on interest-bearing financial instruments held in short-term investments, fixed income investment pools (bonds and mortgages) and Canadian real return bonds held directly by the Plan. Actuarial liabilities are also affected by changes in long-term market interest rates. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

The terms to contractual maturity of interest-bearing financial instruments (including accrued interest receivable), as at December 31, are as follows:

	Terms to maturity				2011		2010	
Interest-bearing financial instruments	**Within**	**1 to 5**	**>5 to 10**	**Over 10**		**Effective Yield**		**Effective Yield**
($ Millions)	**1 Year**	**Years**	**Years**	**Years**	**Total**	**to Maturity**	**Total**	**to Maturity**
Short-term	$ 113	$ 328	$ -	$ -	$ 441	1.20%	$ 703	1.26%
Bonds	345	2,077	1,732	2,718	6,872	1.79%	5,350	1.98%
Real return bonds*	-	-	12	-	12	0.00%	1,452	0.95%
Mortgages	267	627	180	-	1,074	3.44%	1,210	3.44%
	$ 725	$ 3,032	$ 1,924	$ 2,718	$ 8,399		$ 8,715	

* Effective yield to maturity percentages are only the real return, inflation has not been considered

As at December 31, 2011, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, interest-bearing financial instruments (excluding variable interest mortgages) would have decreased or increased by approximately $355.9 million (2010: $587.4 million).

iii) Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to price risk through its equity investments and private placement investments. bcIMC moderates this risk by diversifying its investments across asset classes based on criteria established in the SIPP. As at December 31, 2011, if equity prices (excluding private placement investments and the non-equity balances in the Canadian, US and International equity funds) increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately $1.3 billion (2010: $1.2 billion).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

13. FINANCIAL INSTRUMENTS (continued)

c) Credit Risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term, bonds and mortgages)

	2011		2010	
Credit Rating*	*($ Millions)*			
AAA/AA	$ 5,526	66%	$ 5,813	67%
A	1,439	17%	1,301	15%
BBB	348	4%	367	4%
	7,313	87%	7,481	86%
Unrated	1,086	13%	1,234	14%
	$ 8,399	100%	$ 8,715	100%

* Standard & Poor's

The ratings used are defined by the Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lenders capacity to meet its financial commitment on the obligation is very strong. Bonds assigned an A or BBB rating are weaker with the BBB rating denoting an obligation with adequate protection parameters. Unrated financial instruments consist primarily of mortgages which are secured by real estate.

Credit exposure also exists for members' and employers; contributions and other non-investment assets directly held by the Plan totaling $60.5 million (2010: $51.4 million).

d) Liquidity Risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost effective manner. Expenditures relate primarily to pensions, termination and refund benefits and investment and administration fees. The Plan forecasts its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments and employer and employee contributions. bcIMC primarily invests in securities that are traded in active markets and can be readily sold. Accounts payable of $30.9 million (2010: $26.6 million) and payable for purchase of investments of $75.7 million (2010: $336.4 million) are generally due within one month.

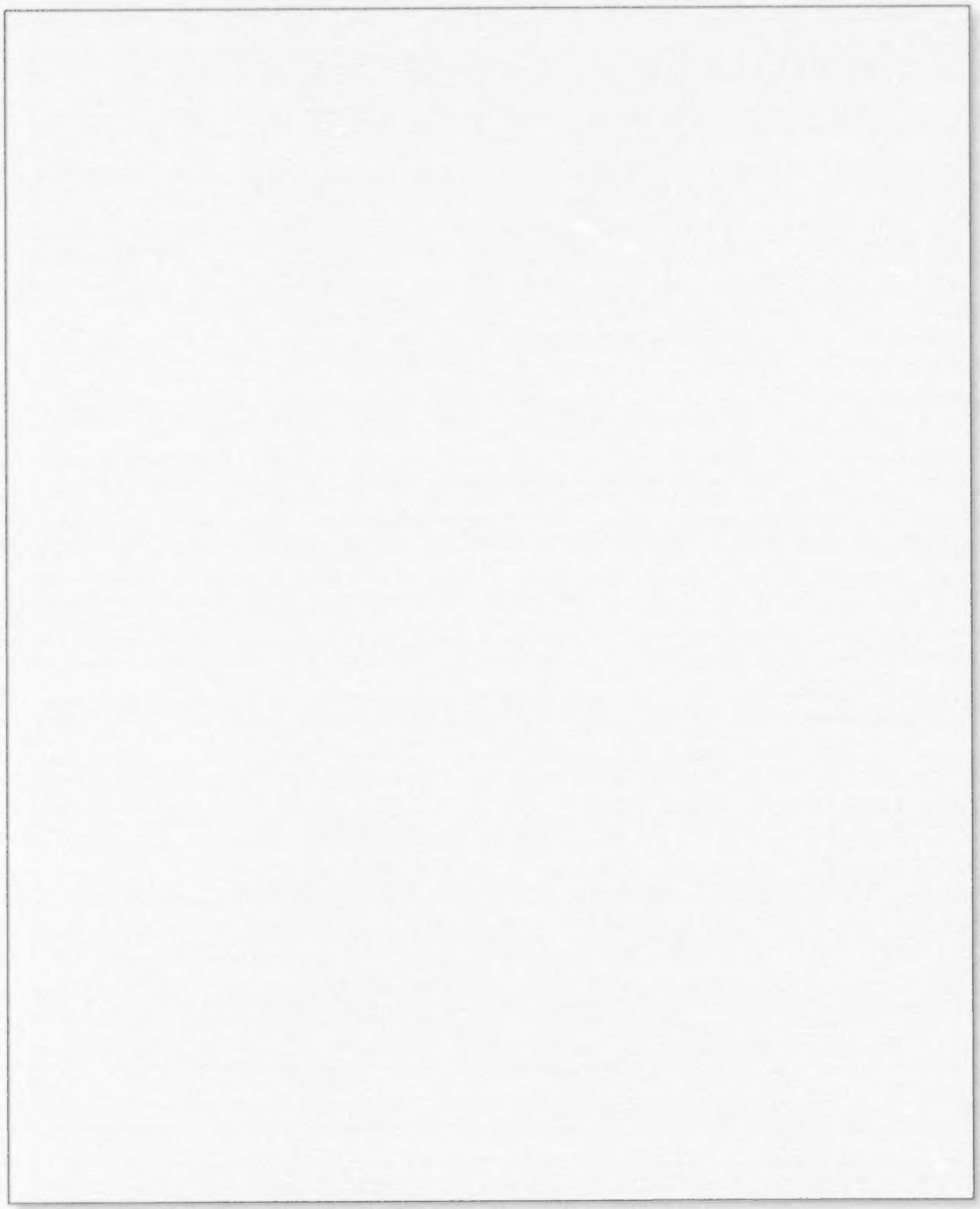
MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

14. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates, through implementation of the SIPP that affects the earnings of the Plan and in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan assets is reviewed by the Board on a regular basis compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. Deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at December 31, 2009, and has three components, the Basic non-indexed benefits (Note 8a) and by considering the valuation of the entire Plan, the non guaranteed IAA benefits (Note 8b) and the retirement annuity account (Note 1d). The next full actuarial valuation will be at December 31, 2012, for inclusion in the December 31, 2013, financial statements.

Financial Statements



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